BOOK-KEEPING SIMPLIFIED

A GUIDE TO THE PRINCIPLES AND PRACTICE OF DOUBLE ENTRY BOOK-KEEPING, WITH NUMEROUS EXERCISES AND SPECIMEN EXAMINATION PAPERS OF THE PRINCIPAL EXAMINING BODIES

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PREFACE

The object of this book is to give the student of Book-keeping a knowledge of the subject sufficient to enable him to open, keep, and close any ordinary set of books in a commercial house; or, if he is not intending to take up duties involving actual book-keeping, to interpret any accounts with which he will come into contact.

Since *Book-keeping Simplified* was first issued, many years ago, the Publishers have received numerous congratulatory letters from successful students who have used the work as their only textbook, and they have also had much gratifying testimony from teachers who have adopted the book in their classes and for private students.

The importance of keeping full and accurate records of all business transactions is rapidly becoming more widely recognized, and this is reflected in recent legislation. The various Bankruptcy Acts and Rules prescribe heavy penalties for bankrupt traders who have failed to keep proper books, and the Companies Act of 1929 not only provides that proper books of account shall be kept, but also sets out in considerable detail matters which must be disclosed in the published accounts and Balance Sheets of Companies registered under the Act.

Although the course of book-keeping followed in this book is not based on any particular examination syllabus, the instruction given is sufficient for most book-keeping requirements except for advanced stages. The more recent test papers of the principal examining bodies throughout the country have been incorporated, and acknowledgment is gratefully

made of permission to reprint examination papers kindly granted by the following representative bodies, viz.—

The Royal Society of Arts.

The London Chamber of Commerce (Incorporated).

The East Midland Educational Union.

The Union of Educational Institutions.

The West Riding County Council Education Committee.

The Union of Lancashire and Cheshire Institutes.

The Northern Counties Technical Examination Council.

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BOOK-KEEPING SIMPLIFIED

CHAPTER I

THE OBJECTS OF BOOK-KEEPING

THE objects of book-keeping are—

(1) To record transactions in money or in money's worth; and

(2) to summarize those records in such a manner as to show:

(*a*) the net or total result of the transactions, i.e. whether they have resulted in a profit or a loss; and

(*b*) the financial position of the business at the conclusion of the trader's transactions.

These results are attained by the adoption of book-keeping on the Double Entry System. This system provides for the division of the transactions according to their particular effects on the business and on the parties with whom business is transacted. Every transaction involves the receiving by one party, and the giving by another, of an identical sum of money or of money's worth. Consequently, every transaction necessitates two entries in the books of account, one relating to the *receiver*, who is always called the Debtor, and is debited with the amount received, and one relating to the *giver*, who is always termed the Creditor, and is credited with the amount given, the sum in each case being exactly equal. Thus, if I buy goods from John Jones, he will be *credited* with their value because he has *given* or parted with the goods, and he becomes my Creditor. On the other hand, I shall be *debited* with the same amount because I have *received* them, and I become his Debtor. When I pay John Jones for the goods, Jones will be *debited* because he *receives* the money, and I shall be *credited* with the cash I pay (or *give*).

Hence, we get the primary rule of double entry book-keeping, which is the essential basis upon which all the records are built, viz.—

Every debit has a corresponding credit and every credit has a corresponding debit.

The entries just referred to are made in a book called **the Ledger.**

The Ledger is one of the most important books in every system of book-keeping by double entry. In it transactions are analysed under appropriate headings according to their nature. A separate page of the book is provided for each particular heading, and each page is divided down the middle. The left-hand side is then used for debit transactions and the right-hand side for credit transactions. The record on each page forms an *Account* of the transactions of the particular nature of the heading appropriated to the page. It is upon the extent and character of the analysis of the transactions that the value of the information which may be derived from book-keeping records depends.

A merchant, in carrying out a series of transactions in the course of his business, deals with many persons, buys and sells goods, pays and receives cash, incurs various trading expenses, undertakes to pay and receives Bills of Exchange. Consequently, it is necessary that the analysis in his Ledger should include such accounts as Goods Account, or Purchases Account and Sales Account, Cash Account, Trade Expenses Account, Bills Payable Account, and Bills Receivable Account, as well as accounts showing the dealings with each of the persons with whom he trades.

Subsequently, certain of these accounts are summarized into a Trading Account, which discloses the balance of profit or loss made upon the transactions, whilst the remainder are summarized in a Balance Sheet, which shows, on the one hand, the liabilities the trader has incurred, and, on the other hand, the property and cash which the business possesses to meet those liabilities.

Subsidiary Books. In order to facilitate the entry of the various transactions in their respective accounts, it is necessary that the analysis should, at least to some extent, first be made in books subsidiary to the Ledger. Consequently, we find in common use the following *Subsidiary Books,* viz.—

(1) The Purchases Book, for recording purchases;

(2) the Sales Book, for recording sales;

(3) the Cash Book, for recording the receipt and payment of cash;

(4) Returns Books, for keeping records of the goods returned to and by the business;

(5) the Bills Payable Book, containing particulars of Bills of Exchange which the trader has undertaken to meet; and

(6) the Bills Receivable Book, in which Bills of Exchange received by him from debtors are entered.

Still another book, named the Journal, is kept for recording transactions of an exceptional nature for which no provision is made in the subsidiary books. Originally, this book, together with the Ledger, were the only books used for keeping the records; but the various subsidiary books mentioned above have been substituted for the original Journal, the use of which is, consequently, very much restricted.

As, however, the Journal illustrates in a concise form that double effect of every transaction which is the basis of double entry book-keeping, the student should make himself well acquainted with its form and use at the outset of his studies.

The form of the Journal is as follows—

JOURNAL

			Dr.			*Cr.*		
			£	*s.*	*d.*	£	*s.*	*d.*

The first column is used to record the date of the transaction, the second for its particulars, the third for folio references; the fourth and fifth are for the money values of the debit and credit aspects of the transaction respectively.

In making the record of the transaction in the "particulars" column, the receiver, or debit account, is always stated first, and he is described as being "debtor to" the giver, or credit account. Thus, I sell John Jones goods to the value of £10. John Jones is the *receiver* of £10 in money's worth, and my Goods Account is the *giver* of £10 in money's worth. John

Jones is the "debtor to" my Goods Account for £10. Therefore, this transaction will appear in the Journal thus—

		£	s.	d.	£	s.	d.
Jan. 1	John Jones. . . *Dr.*	10	–	–			
	To Goods Account . .				10	–	–
	For goods sold to him this day						

It will be observed that the money value is extended into the debit and credit cash columns respectively, £10 being placed in each. The amounts in the two columns agree. Every debit has a corresponding credit. John Jones's debit of £10 has a corresponding Goods Account credit of £10. Thus, the rule laid down earlier in the chapter is complied with. The money values in the debit column must always agree with the money values in the credit column when the entry of Journal transactions is completed. This does not necessarily mean that the two amounts in every case will be the same. Sometimes a debit may have two or more corresponding credits which, together, equal in amount the debit sum. Thus, a debit of £20 may have corresponding credits of £10, £7, and £3, or *vice versa*. The point is that the total debits must always equal in amount the total credits, so that if the two columns of the Journal are added up after a series of transactions has been recorded, the totals of them will agree.

It should be noticed, also, that every Journal record should include a narration of the nature of the entry, as, for instance, that shown above: "For goods sold to him this day," so that the nature of the transaction can easily be ascertained subsequently.

The entries which occur in the Journal are, in due course, transferred, or "posted," to the Ledger, the debit items to the debit side of the Ledger and the credit items to the credit side of the Ledger. The process of "posting" will be dealt with later.

SUMMARY

1. *Objects of Book-keeping.* (*a*) To record transactions in money or in money's worth; (*b*) to summarize records so as to show (1) the profit or loss, and (2) the financial position of the business.

2. These results are attained by Double Entry Book-keeping.

3. Double Entry Book-keeping involves the entry of every transaction twice: once on each side of the Ledger.

4. *Primary Rule.* Every debit has a credit, and every credit a debit.

5. *Principal Book.* The Ledger, which is a book of accounts classified according to their nature.

6. *Subsidiary Books.* The Sales Book, Purchases Book, Returns Books, Cash Book (a part of the Ledger), Bills Receivable and Payable Books. Also the Journal, primarily one of the principal books, but now largely fallen into disuse except for extraordinary transactions.

EXERCISE 1

Record in Journal form the following transactions, viz.—

Jan. 1. I sell Goods to Wm. Brown value £50.
2. I buy Goods from Fred Smith value £100.
3. Wm. Brown pays me £20 in cash.
4. I pay Smith £50 in cash.

EXERCISE 2

Journalize (i.e. enter in proper form in the Journal) the following transactions—

Apr. 7. I purchase a horse from T. Brown for £60.
8. I exchange the horse for 5 cows value £15 each.
9. I sell 5 cows for £16 each to R. Smith.
10. I receive from R. Smith £80 in payment.
11. I pay T. Brown £60 for the horse.

EXERCISE 3

Journalize the following in B. Allen's Journal—

July 12. B. Allen borrows £100 from C. Burton.
13. He buys 70 crates of china from D. Cameron value £70.
14. He sells 50 crates of china to E. Drake value £75.
15. E. Drake returns 2 crates of china, damaged, value £3.
16. B. Allen returns the two crates to D. Cameron value £2.
17. He pays D. Cameron £50 on account.
18. He receives from E. Drake £72.
19. He pays back £20 to C. Burton.

EXERCISE 4

Journalize the following transactions—

I buy a Morstin Car for £400, giving in exchange a Fordroyce Car and £250 in cash. I then insure the car for £350, paying a premium of £16. I also pay for road licence £15, and for petrol £1 5s.

EXERCISE 5

Wm. Brown bought on 1st July, 19.., a factory building for £5,000; in addition to which he acquired machinery and plant of the value of £10,000. He paid J. Green for these on 5th July, 19... He then

bought from Thomas Grey on 6th July, 19.., materials value £2,000 and paid for them on 7th July, 19... He sold manufactured goods value £2,500 on 17th July, 19.., and received payments from Richard Black for them as follows: £1,500 on 17th August, 19.., and £1,000 on 1st September, 19... Record these transactions in the Journal.

CHAPTER II

THE CASH BOOK

THE principles of double entry book-keeping may be applied with advantage to any series of transactions. They are, naturally, most frequently applied to business transactions. Business is carried on for profit. Profit is most appreciated in its tangible form of cash. Almost every transaction in business ultimately resolves itself from money's worth to money. Hence, the volume of transactions in cash is, in most cases, greater than in any other class of transactions. It will be evident to the student, therefore, that the records of the cash transactions are of great importance.

The Cash Account is a Ledger Account, but, because of its frequent use, and for other reasons of convenience, it is kept separate from the Ledger in a Cash Book.

The form of a simple Cash Book is as follows—

Dr. CASH ACCOUNT *Cr.*

			£	s	d.				£	s.	d.

The left-hand side is the *debit* side, as indicated by the abbreviation " Dr.," and upon this side entries recording cash *received* are made, because, as stated in the opening chapter, *the receiver is debited*. The right-hand, or credit side, indicated by the abbreviation " Cr.," is reserved for the record of *payments* of cash, *the payer* (*or giver*) *being credited*.

The account is ruled on each side with four columns, which are used respectively for—

(1) The date;

(2) the name of the person from whom the cash is received or to whom it is paid, as the case may be;

(3) the reference column (to be explained later); and

(4) the money column.

Provided that all cash received is duly entered on the debit side, and all payments of cash are properly entered on the credit side of the Cash Book, it follows that the excess of the total of the entries on the debit side over the total of the credit side entries will represent the amount of cash remaining in hand.

Balancing the Cash Book. From time to time it is necessary *to balance the Cash Book.* This is accomplished by adding each side of the Cash Book, placing upon the side on which the smaller total appears the *difference between* the two totals, and writing in the particulars column on that side the words "Balance carried down." After this is done, the two sides are totalled, and they, of course, agree. The totals are then "ruled off." In order to conform to the rule that every debit has a credit, the balance is carried down below where the totals are ruled off, to the opposite side of the account to that on which it was first entered as a balancing figure.

In the Cash Book, the "payments" side will always require the insertion of the balance, unless the two sides are equal, as it is impossible to pay away more than is received. Consequently, this balance will be "brought down" on to the debit side, and is called a "debit" balance, and should be confirmed, of course, by the actual money in hand.

The following exercise will explain the method of entering up and balancing the Cash Book.

Example. The cash transactions of A. Brown are set out below. Write up the Cash Book and show on the face of the account the cash in hand at the close of the month of January.

			£	s.	d.
19..					
Jan.	1.	Received from F. Jones	50	–	–
	2.	Paid for Goods	25	–	–
	7.	Received from T. White	26	–	–
	12.	Received for Sale of Goods	80	–	–
	27.	Paid P. Panne	32	10	–
	29.	Received from F. Jones	100	–	–
	31.	Paid Wages	20	–	–
	,,	,, Trade Expenses	5	–	–

Dr. CASH BOOK *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Jan. 1	To F. Jones .	50	–	–	Jan. 2	By Goods . .	25	–	–
7	„ T. White .	26	–	–	27	„ P. Panne. .	32	10	–
12	„ Goods . .	80	–	–	31	„ Wages . .	20	–	–
29	„ F. Jones .	100	–	–		„ Trade Expenses	5	–	–
						„ Balance c/d .	173	10	–
		256	–	–			256	–	–
Jan. 31	To Balance b/d .	173	10	–					

It will be observed that the total of A. Brown's receipts of cash for the month of January is . . . £256 – –
His payments for the same period amount to . 82 10 –

The excess of receipts over payments, therefore, is £173 10 –

which represents the cash in hand at the end of the month, and which is, therefore, carried down to the debit side as the balance in hand on 31st January.

SUMMARY

1. The Cash Book is the book in which receipts and payments of cash are recorded.
2. It is a Ledger account kept separate from the Ledger for convenience.
3. Receipts are entered on the debit side.
4. Payments are entered on the credit side.
5. The difference between the totals of the two sides is called the "balance."
6. A *Debit balance* on the Cash Book represents cash in hand (i.e. excess of receipts over payments).
7. A *Credit balance* on the Cash Book represents cash due to the cashier (i.e. the excess of payments over receipts). This would not occur in actual business.

EXERCISE 6

Write up the following series of transactions in the Cash Book, and show the balance in hand at the close.

			£	s.	d.
Jan.	1.	Received from B. White	15	10	–
	2.	„ „ R. Green	25	–	–
	4.	Paid to W. Jones	16	15	–
	5.	Received from R. Thomas . . .	10	–	–
	7.	Paid to S. Smith	17	10	–
	10.	„ W. Wright	15	–	–
	12.	Received from P. Percy . . .	22	10	–

EXERCISE 7

			£	s.	d.
Apr.	9.	Received from R. Johnson which was paid the same day into the Midland Bank	100	–	–
	10.	Received from G. Green	25	–	–
	,,	,, ,, S. Brown	40	–	–
	,,	,, ,, T. Thorne	20	–	–
	12.	Paid to the Midland Bank	60	–	–
	13.	Paid Trade Expenses	5	–	–
	14.	Drew from Midland Bank which was paid to L. Luke	30	–	–
	16.	Drew from Midland Bank which was paid to R. Green	20	–	–
	17.	Received from W. Jones	80	–	–
	19.	Paid to Midland Bank	75	–	–
	20.	Paid Trade Expenses	8	10	–

Enter the foregoing in the Cash Book and ascertain the balance of cash in hand.

EXERCISE 8

The following are the cash transactions of Thomas Thompson, viz.—

			£	s.	d.
July	1.	Received from G. Garbo	100	–	–
	2.	Paid C. Bennett	50	–	–
	3.	Shop Takings	35	–	–
	4.	Paid into Bank	85	–	–
	5.	Shop Takings	42	–	–
	6.	Paid Trade Expenses	10	–	–
	,,	Paid R. Smith	20	–	–
	,,	Paid into Bank	12	–	–
	7.	Drew from Bank	16	–	–
	,,	Shop Takings	32	–	–
	,,	Paid L. White	18	–	–
	8.	Paid Trade Expenses	12	–	–
	,,	Paid to Bank	10	–	–
	,,	Paid J. Luke	8	–	–

Record these entries in the Cash Book and show the cashbalance in hand at the close of business on 8th July.

EXERCISE 9

Wm. Thompson had cash in hand on 1st January, 19.., amounting to £6 10s. He paid £5 of this into the Bank on 2nd January. His subsequent transactions were—

			£	s.	d.
Jan.	3.	Received for Goods sold to W. Smith.	25	–	–
	4.	Paid into Bank	20	–	–
	7.	Received for Goods sold to T. Howarth	15	–	–
	8.	Paid to M. Mortimer	10	–	–

			£	s.	d.
Jan.	8.	Paid all balance of Cash in hand into the Bank			
	9.	Drew from Bank £12 10s. and paid to R. Rivet	10	10	–
	13.	Received from L. Burke a loan of . and paid this into the Bank	100	–	–
	14.	Drew from Bank	40	–	–
		and paid the following—			
		Rent	16	–	–
		Rates	10	–	–
		Carriage	4	10	–
		Wages	8	–	–

What was the Cash in hand at the close of business on 14th January? Prove it by the Cash Book record.

CHAPTER III

SALES AND PURCHASES BOOKS

In Chapter I it was pointed out that the analysis of the various classes of transactions in business is carried out in what are termed the subsidiary books before any entries are made in the Ledger. Business transactions consist largely of the buying and selling of goods. We find, therefore, that special forms of subsidiary books exist for recording each of these classes of transactions, sales being entered in a *Sales Book,* and purchases in a *Purchases Book.*

Method of Dealing with Outward Goods. When goods have been sold to customers, the order for the goods is passed to the person in charge of the warehouse. The order should contain full instructions as to the quality and nature of goods, the name and address of the buyer, the date at which, and the means by which, they are to be dispatched.

The orders in question may either be written in a Warehouse Order Book by the counting-house clerk, or a duplicate form of order may be used, which enables the counting-house to keep, with very little trouble, a duplicate copy of all orders received.

Following the instructions of the Order Book, the warehouseman packs and sends away the goods, and at the same time enters full particulars of the " consignment " in a Dispatch Book, and records in a special column provided in the Order Book the fact that the order has been completed. The Dispatch Book goes into the counting-house, where, after being checked with the orders, the entries in it are transferred to the Sales Book.

Sales Book. Usually the whole of the particulars appearing

Date	Name	Description of Goods	Fo.	Details			Total		
				£	s.	d.	£	s.	d.

in the Dispatch Book are entered in the Sales Book, together with the prices of the goods and the calculated value of them.

The form of the Sales Book is given on p. 12.

The first column records the date of dispatch.

The second column records the purchaser's name.

The third column is used for the particulars of the goods sold.

The fourth column is the Ledger folio column.

The fifth column (which is sometimes omitted) gives the details when more than one class of goods is comprised in a single sale.

The sixth column shows the total value of each sale to each individual buyer.

After the Sales Book has been duly entered up from the Dispatch Book, the Office Order Book will be marked off, a reference to the number of the order being placed in the Sales Book against the appropriate delivery, and a corresponding cross reference to the folio of the Sales Book appearing in the Order Book. The counting-house clerk then proceeds to make out "an invoice" for the goods dispatched.

An Invoice is a bill containing full particulars of the goods supplied, their price and total value. It is practically a copy of the entry in the Sales Book. This invoice is sent to the purchaser on the same day as the goods are dispatched, and acts as a notification of the dispatch of the goods and the amount ultimately to be paid for them.

The entries in the Sales Book should be checked daily with those in the Dispatch Book, and, periodically, with the carriers' accounts for carriage. In addition, it is, of course, essential that the prices should be checked with the quotations given to the buyer, and the extensions of the value and additions of the invoice checked before it is forwarded to the purchaser.

The following example illustrates the use of the Sales Book—

Example. Enter in A. Brown's Sales Book the record of the following sales—

19..
Jan. 3. Sold to A. Meek—
100 tons of Coal at 20s. per ton
10 ,, Slack at 12s. ,,
20 ,, Coke at 9s. ,,
Sold to B. Barnes—
50 tons of Coal at 22s. per ton
Sold to L. Reed—
40 tons of Nuts at 18s. per ton

SALES BOOK

Date	Name	Description	Fo.	Details £	s.	d.	Total £	s.	d.
19..									
Jan. 3	A. Meek .	100 tons Coal, at 20s. per ton		100	–	–			
		10 „ Slack, at 12s. „		6	–	–			
	(Order No. 3785) .	20 „ Coke, at 9s. „		9	–	–			
							115	–	–
	B. Barnes . (Order No. 3764) .	50 „ Coal, at 22s. „					55	–	–
	L. Reed . (Order No. 3699) .	40 „ Nuts, at 18s. „					36	–	–
							£206	–	–

The invoice sent to A. Meek would appear as follows—

LONDON, *3rd January*, 19..

MR. A. MEEK,

To ARTHUR BROWN, *Dr*.

Terms: 1½% cash, one month.

			£	s.	d.
19..					
Jan. 3	100 tons of Coal . . .	20/–	100	–	–
	10 „ Slack . . .	12/–	6	–	–
	20 „ Coke . . .	9/–	9	–	–
			£115	–	–
	Your Order No. 1719				
[1]E. & O.E.	Our Order No. 3785				

Purchases. When goods which have been purchased by a trader are duly delivered to him at his warehouse, full particulars of them should be entered by the receiving clerk in a Goods Received Book. In due course the purchaser will receive from the seller an invoice, similar to that shown above, giving particulars of the goods delivered.

On receipt of the invoice, it must be checked to ascertain, first, that the correct quantity and quality of goods have been received, and, secondly, that the prices charged and calculations made are correct. This will be done by comparing the invoice with the records in the Goods Received Book, to prove that the goods have been actually received, and a reference to the folio of that book will be made upon the invoice, and a similar cross reference to the invoice will be made in the Goods

[1] Errors and omissions excepted.

Received Book. This will prevent two invoices for the same goods being passed, and the goods being paid for twice. The prices charged will then be checked by reference to the tenders, quotations, contracts, or price lists. The calculations of the bill and its additions will next be checked, and after all necessary corrections have been made and the account as a whole has been approved by the principal or manager, it will be passed forward to the counting-house for entry in the books of account.

Statements. Monthly, or, in some cases, at longer intervals, another bill is rendered by the seller, on which is shown the daily deliveries over the period, from which any payments of cash on account are deducted. This is known as a "Statement," and must carefully be distinguished from an "Invoice." The statement gives no details of the nature of the deliveries, the term "To Goods" being commonly used. The invoice, on the other hand, gives full particulars of the goods dispatched. The statement is issued monthly (usually). The invoice is sent out immediately after the dispatch of the goods. The statement is used by the purchaser to confirm the record in his Ledger. The invoice is used to build up that record. The statement is an intimation to the purchaser that payment is due, and it is upon this document that he pays after checking it. The invoice is merely an intimation that the goods have been dispatched, and is not intended to be a request for payment. The following is a form of statement—

STATEMENT

31st January, 19..

Messrs. A. Bee & Co.

To J. KAY & CO. *Dr.*

Terms: Net Cash, 1 month

19..		£	s.	*d.*
Jan. 1	To Goods	16	–	–
7	,, ,, ...	25	–	–
21	,, ,, ...	14	–	–
		55	–	–
Jan. 14	By Cash on Account	20	–	–
		£35	–	–

Purchases Book. For the purpose of recording the goods purchased, a Purchases Book is necessary, the form of which is as follows—

PURCHASES BOOK

Date	Inv. No.	Name	Particulars	Led. Fo.	Details			Total		
					£	s.	d.	£	s.	d.

It will be observed that this form is almost identical with the form of the Sales Book. It is, in this case, written up from the invoices of goods purchased. At one time it was the practice to make a detailed copy of each invoice in the Purchases Book; but, as the invoices are a standing record which can be filed in a manner easy for reference, it is now the custom to enter only the date, the name and amount, together with the consecutive number of the invoice, by means of which the invoice can rapidly be located on the file if the particulars it contains are needed for reference.

The following example illustrates the use of the Purchases Book—

Example

Feb. 6. Received invoice from R. Brown for Goods purchased 29th January, £70
Bought Goods from W. Philips, as per invoice, £36
Goods received from M. Jones, £125; viz. two parcels value £55 each, and one value £15

Date	Inv. No.	Name	Particulars	Fo.	Details			Total		
19..					£	s.	d.	£	s.	d.
Feb. 6	1	R. Brown	Goods					70	–	–
8	2	W. Philips	,,					36	–	–
9	3	M. Jones	,,		110	–	–			
			,,		15	–	–			
								125	–	–
								£231	–	–

When the invoices are filed and consecutively numbered, and the Purchases Book is written up from them, the

"Particulars" columns in the Purchases Book can, with advantage, be dispensed with.

Dating Forward. It is a common practice in business, when it is desired to extend the "terms of credit" (i.e. the time within which the purchaser may pay the amount of the account) to "date forward" the invoice. The terms of credit run from the date of the invoice, and, therefore, by dating that document for a date subsequent to the date of delivery of the goods, an extended term is allowed in which the account may be paid: e.g. goods are delivered on 29th March. The terms of credit are that the account is to be paid within the month following the month in which the invoice is dated. If, in this particular instance, the invoice is dated forward to 1st April, the credit will expire on 31st May. If the invoice be dated 29th March (i.e. the date of the delivery of the goods) the terms of credit expire on 30th April. Therefore, by dating forward the invoice, an extra month's credit is allowed.

SUMMARY

Sales

1. Entered in Dispatch Book when goods are sent away.
2. Copied from Dispatch Book into Sales Book and values extended into the money columns.
3. Invoices dispatched to buyers same day as goods are sent.

Purchases

1. Entered in Goods Received Book when received.
2. Invoice received and checked with Goods Received Book to prove correctness of quantities.
3. Calculations, additions, and prices on invoice checked.
4. Invoice forms basis of entries in Purchases Book.
5. A statement is a periodical account showing deliveries made within that period. It is a copy of the Ledger Account of the seller since the last settlement, but is set out in slightly different form. Is usually intended as a notification that payment is due.
6. An invoice is a bill containing details of the quantity, price, and value of goods dispatched, which is forwarded at the same time as the goods.
7. "Dating forward" an invoice is a means of granting an extended term of credit.

EXERCISE 10

Record the following sales in a suitably ruled Sales Book—

Jan. 17.	Sold to	T. Smith, 100 yd. of Ribbon at 3d. per yard.
18.	,,	R. Buckle, 70 pieces of Cloth, at 23s. per piece.
24.	,,	D. Darwin, 40 yd. of Silk, at 5s. per yard.
,,	,,	D. Darwin, 2 gross Buttons, at 10s. per gross.
31.	,,	M. Smith, 130 yd. of Flannelette, at 6d. per yard

EXERCISE 11

Enter in the Purchase Book of William Robinson the following purchases made by him—

Apr. 2. 40 lb. of Tobacco at 16s. per lb., bought from S. Stone.
3. 100 boxes of Cigars at 20s. per box, purchased from L. White.
7. 60 lb. of Tobacco at 15s. per lb. and 10,000 Cigarettes at 50s. per 1,000, purchased from Tobacconists' Supply Co.
10. 50 Pipes at 30s. per doz. and 30 Cigar Cases at 4s. 6d. each, purchased from R. Wood.

EXERCISE 12

Enter in the appropriate books the following transactions—

Jan.	1.	Purchased from T. Green,	Goods	value	£60
	2.	Sold to M. Brown,	,,	,,	£30
	,,	,, L. White,	,,	,,	£20
	3.	Bought of Smith & Co.,	,,	,,	£35
	,,	Sold to Jones & Co.,	,,	,,	£22
	4.	Purchased from L. Thompson,	,,	,,	£100
	,,	,, ,, T. Green,	,,	,,	£80
	7.	Sold to R. Bright,	,,	,,	£40
	,,	,, D. Stone,	,,	,,	£30

EXERCISE 13

The Dispatch Book of A. Trader shows the following entries—

Jan. 8. J. Kay, 50 cwt. of Sugar at 20s. per cwt.
9. F. Wood, 10 cwt. of Butter at £6 10s. per cwt.
,, ,, 2 cwt. of Peas at 22s. per cwt.
11. M. Webster, 28 cwt. of Soap at 20s. for 64 lb.
12. T. Redman, 56 lb. of Bacon at 6d. per lb.
14. R. Harley, 10 sacks of Flour at 13s. per sack.
,, ,, 96 lb. of Tea at 1s. 8d. per lb.
,, ,, 4 cwt. of Lentils at 20s. per cwt.

He had Invoices for the following—

Jan. 7. S. Sweet, 60 cwt. of Sugar at 15s. per cwt.
,, ,, 14 cwt. of Peas at 20s. per cwt.
,, ,, 6 cwt. of Lentils at 18s. per cwt.
,, ,, 192 lb. of Tea at 1s. 6d. per lb.
8. M. Cleen, 56 cwt. of Soap at 17s. per cwt.
10. L. Frute, 1 cwt. of Currants at 4d. per lb.
,, ,, 2 cwt. of Sultanas at 6d. per lb.
11. A. Knowles, 15 cwt. of Butter at £5 10s. per cwt.
,, ,, 2 cwt. of Bacon at £2 5s. per cwt.

Enter these transactions in the appropriate books.

CHAPTER IV

THE LEDGER

We have hitherto dealt only with the subsidiary books of account (i.e. the Cash Book, the Sales Book, and the Purchases Book). We must now consider one of the main books of the double entry system, viz. the Ledger.

The Ledger is, as has already been explained, a book of accounts. Each page of the Ledger is ruled as follows—

Dr. *Cr.*

			£	s.	d.				£	s.	d.

It will be observed that this form is identical with that of the Cash Book illustrated in Chapter II. The reason is that the Cash Book is really one of the accounts of the Ledger, called the "Cash Account," kept separate from the Ledger for convenience.

As with the Cash Book, the left-hand side is reserved for debit entries, and the right-hand side for credit entries, and the four columns on each side are used for the date, the narration, the folio reference, and the amount (or money value) respectively.

Now the subsidiary books which have been previously considered are known as books of "prime entry." In other words, it is in the Cash Book and the Sales and Purchases Books that the records of transactions are first entered. The Ledger is not a book of prime entry. The entries in it are made by means of "postings" from the subsidiary books.

Posting. Now, in the first chapter it was pointed out that the first and most important rule of double entry book-keeping was that "Every debit has a credit, and every credit has a debit." Therefore, in posting the entries in the Cash Book to the Ledger, it follows that the entries made on the debit side of the Cash Book must be entered on the credit side of

a Ledger account, and the credit entries in the Cash Book must appear on the debit side in the Ledger. It will be seen that by so doing the rule that "the receiver is debited and the giver credited" is also carried out. Thus, if cash to the amount of £5 passes from John Jones to me, I am the receiver and John Jones is the giver. Therefore, I must be debited, which is done by entering the sum received on the debit side of my Cash Account; whilst John Jones must be credited, which is accomplished by opening an account in the name of John Jones in the Ledger and posting the cash received from him, from my Cash Account to the credit of his account.

Such a transaction will, therefore, appear in my books as follows—

Fo. 1

Dr. CASH BOOK *Cr.*

19.. Jan. 1	To John Jones .	L. 1	£ 5	s. –	d. –						

LEDGER Fo. 1

Dr. JOHN JONES *Cr.*

						19.. Jan. 1	By Cash . .	C.B. 1	£ 5	s. –	d. –

For the first time, I make use of the reference folio column by inserting in the Cash Book the folio of the Ledger on which the entry in John Jones's account will be found, and by making a similar cross reference in John Jones's account to the page of the Cash Book on which the corresponding debit entry appears. The double entry of this transaction is now completed.

Personal Accounts. The account opened in the Ledger in the name of John Jones is a "**personal account.**" A personal account is one which records dealings with persons. The need for personal accounts may be explained as follows. If every sale that I make were paid for in cash immediately, and if I were able to pay in cash at once for every purchase I make, the need for personal accounts would not arise, for the total

of the cash received for sales could be ascertained, and, similarly, the total payments for purchases could be determined. By posting these totals to a Sales Account and a Purchases Account respectively, I could ascertain this particular information without the intervention of the Sales and Purchases Books, and without the need for personal accounts. But trade could not be carried on, except to a very limited extent, on these lines, and the inconvenience of attempting to do so would be very great. Purchases and sales are, therefore, in most cases made "on credit." That is to say, I sell goods to my customer and allow him a certain time in which to pay me for them, because my confidence in his integrity and financial strength, or, in other words, his credit, is sufficient to justify me in allowing him to have the goods for a time without paying for them. I know, too, that by this means he will have an opportunity of disposing of the goods, and, possibly, of receiving payment for them, and that, therefore, he will probably be in a better position to pay me. It is this buying and selling "on credit" which gives rise to the need for personal accounts. These transactions must be recorded as and when they occur, and some record must be kept of the persons who thereby become creditors and debtors.

The need of the Sales Book and Purchases Book will now be evident to the student. It will also be clear that, by posting from these books to personal accounts in the Ledger, a record is created in that book of the debtors and creditors of the business, and the amounts due by and to those persons.

The entries in the Sales Book are posted to the debit of the persons to whom goods have been sold, because "*the receiver is debited*." The entries in the Purchase Book are posted to the credit of the personal accounts of those from whom the goods were bought, as they are the *givers*.

Another entry is required, however, in the Ledger to complete the double entry, for the Sales and Purchases Books are not "accounts" like the Cash Book. It is, therefore, necessary to open a Sales Account and a Purchases Account, to which the totals of the Sales Book and Purchases Book are respectively posted at stated periods. There is no object to be served in posting each individual entry in detail to the credit or debit of these accounts. The rule that "every debit has its credit" is equally observed by posting the totals:

for the amounts of the individual sales debited in personal accounts have their corresponding credit in the sum posted to the Sales Account, and, similarly, the total debited to the Purchases Account forms the corresponding debit to the detailed sums which have been credited in the individual personal accounts. Thus, the double entry of the buying and selling transactions " on credit " is effected.

Sales on Credit. Let us now consider the " posting " of the Sales Book and Purchases Book. Suppose that on 1st January John Jones bought from me goods to the value of £5, which he paid for on the same day, and that on 12th January he bought £10 worth of goods, for which he did not pay for some time. How would these entries be recorded in the books of account?

Now, we have already seen earlier in the chapter the record of the receipt of £5 from John Jones, where it was shown to be debited in the Cash Book and credited by a posting to John Jones's account in the Ledger.

The two sales to him, however, still require to be recorded. We must, therefore, open our Sales Book and make the necessary entries, which will appear as follows—

SALES BOOK Fo. 1

Date	Name	Particulars	Fo.	Details	Total £	s.	d.
19.. Jan. 1	John Jones . .	Goods	L. 1		5	–	–
12	John Jones . .	Goods	L. 1		10	–	–
					£15	–	–
					L.	6	

These two items must now be posted to John Jones's account in the Ledger, which has already been opened and credited with the cash he paid on 1st January. As Jones was the *receiver* of the goods, he must be debited with them. Therefore, Jones's Ledger account will be posted up thus—

Dr. JOHN JONES Fo. 1 *Cr.*

Date		Fo.	£	s.	d.	Date		Fo.	£	s.	d.
19.. Jan. 1	To Goods . .	S.B. 1	5	–	–	19.. Jan. 1	By Cash . .	C.B. 1	5	–	–
Jan. 12	To Goods . .	S.B. 1	10	–	–						

It will be observed that the references to the folios on which the entries are recorded in the Sales Book have been made in the folio column of Jones's Ledger account, and that similar cross references have been made in the Sales Book.

It is now necessary to complete the double entry. So far as the cash payment is concerned, that has been done, for cash is debited and Jones is credited with the amount paid. The sales have, however, only been debited. It is necessary, therefore, to open a Sales Account and to credit it with the total sales, viz. £15, which then forms the corresponding credit for the two items of £5 and £10 respectively debited to Jones. The Sales Account will thus appear as follows—

Fo. 6

Dr. SALES ACCOUNT *Cr.*

						19..		S.B.	£	s.	d.
						Jan. 12	By Sundries .	1	15	–	–

Cash Sales. Not all sales are made on credit. Retail traders sell largely for ready money, and frequently wholesale traders make petty sales of oddments of goods, etc., for cash. It is impracticable, of course, for a retail trader to attempt to keep a personal account for each customer he serves over the counter. Such a procedure would be absurd. Similarly, there is no particular advantage in a wholesale trader keeping personal accounts for his ready money sales. In such cases, therefore, the sales for cash by the retailer are recorded by his cash till, and the total cash received and so recorded is brought into the Cash Book daily, weekly, or at other convenient periods. The wholesaler also keeps a record of his cash sales in a separate book and periodically transfers the total to his general Cash Book. Sometimes the cash sales are posted direct from the Cash Book to the credit of the Sales Account. It is preferable, however, that they should be posted to a "Cash Sales Account," the total of which is transferred periodically—usually at the end of the trading period—to the Sales Account. The advantage of this course is that the total of the sales for ready cash in any one period can be ascertained, and compared with the totals of similar and corresponding periods, and an explanation sought for any substantial difference.

Purchases on Credit. It is now necessary to illustrate the recording of purchases made on credit.

Assume that on 4th January I purchase goods to the value of £5 from Thomas Brown, for which I pay on 6th January, and that on 11th January I purchase goods valued at £10 from the same person. How will these transactions be recorded in my books of account?

In the first place, the purchases made must be entered in the Purchases Book as follows—

PURCHASES BOOK Fo. 1

19..	Inv. No.			Led.	£	s.	d.
Jan. 4		Thomas Brown . .	Goods	4	5	–	–
11		" " . .	"	4	10	–	–
					£15	–	–
					L.	8	

and the payment of cash will be credited in my Cash Book thus—

Fo. 1

Dr. CASH BOOK *Cr.*

			£	s.	d.	19..		Led.	£	s.	d.
						Jan. 6	By Thomas Brown	4	5	–	–

These items must now be posted into the Ledger in the account of Thomas Brown. As Brown is the *giver* of the goods, it follows that the items appearing in the Purchase Book will be *credited* to his account. And as he is the *receiver* of the sum paid on 6th January, he will necessarily be *debited* with that amount. Hence, his account will appear thus—

Fo. 4

Dr. THOMAS BROWN *Cr.*

19..			£	s.	d.	19..			£	s.	d.
Jan. 6	To Cash . .	C.B. 1	5	–	–	Jan. 4	By Goods . .	P.B. 1	5	–	–
						Jan. 11	By Goods . .	P.B. 1	10	–	–

The double entry is finally completed by debiting "Purchases Account" with £15, which is the total of the purchases

and which forms the corresponding debit to the two credits appearing in Thomas Brown's account. Thus—

Fo. 8

Dr.	PURCHASES ACCOUNT										*Cr.*
19.. Jan. 11	To Sundries	P.B. 1	£ 15	s. –	d. –						

The student will now observe that we have got an account (p. 22) which shows, because we have been selling on credit, that the goods sold exceed the cash received by £10, which sum is the excess of the debit side of John Jones's account over the credit side. Therefore, John Jones is said to be a *debtor* for £10.

We have also got an account which shows that we have purchased goods to the value of £10 more than we have paid cash for. This is Thomas Brown's account, of which the credit side is £10 in excess of the debit side. Therefore, Thomas Brown is said to be a *creditor* for £10.

Impersonal Accounts. In the course of the preceding lesson, the student will have observed that the entries made in the personal accounts of John Jones and Thomas Brown have for their corresponding debits and credits entries in accounts which are *not* personal accounts, for they are headed "Sales," "Purchases," and "Cash." These accounts are termed "*Impersonal Accounts*." They really represent our side of the transactions, but instead of debiting and crediting one big personal account in our own names, we carefully analyse the transactions according to their nature, and debit or credit them in appropriate Impersonal Accounts, and thereby are enabled to obtain a considerable amount of valuable information, as will be seen later.

Impersonal Accounts are sub-divided into two other classes of accounts, viz.—

1. *Real Accounts*, which record transactions in real or tangible property, e.g. Cash, Buildings.

2. *Nominal Accounts*, which record profits and losses, expenses and income, e.g. Trade Expenses, Receivable Interest.

The Sales Account, Purchases Account, and Cash Account are all Real Accounts, for they record dealings in tangible property, viz. Goods and Cash.

Nominal Accounts. In addition to the buying and selling of goods, there are incurred in the course of trading the expenses incidental to it, which are not represented by any tangible matter, as, for instance, Rates and Taxes, Wages, etc. These are Trade Expenses, and they are recorded in the books by posting the payments, when they are made, from the credit side of the Cash Book to " Trade Expenses " Account in the Ledger, in which account, they, of course, appear on the debit side. Thus—

Fo. 1

Dr. CASH BOOK *Cr.*

			£	s.	d.	19..		Led.	£	s.	d.
						Jan. 9	By Rent . .	17	60	–	–
						12	,, Wages .	17	35	–	–
						14	,, Petty Expenses .	17	5	–	–

Fo. 17

Dr. TRADE EXPENSES *Cr.*

19..		C.B.	£	s.	d.						
Jan. 9	To Rent . .	1	60	–	–						
12	,, Wages .	1	35	–	–						
14	,, Petty Expenses .	1	5	–	–						

As the items appearing in the Trade Expenses Account are unrepresented by any tangible property, that account is known as a " Nominal Account."

Trial Balance. One of the great advantages of double entry book-keeping is that it is possible at any time to prove the arithmetical accuracy of the book-keeping records. The reason for this lies in the rule that " every debit has an equal credit."

It will be clear to the student that if, in the course of making the records, care has been taken that every entry on the debit side of each account has been correspondingly recorded on the credit side of some other account, then the total of the items debited must equal the total of the items credited, and that, if an error has been made in the posting, or if some posting has been omitted, then the two totals will disagree. There is, therefore, at hand a means of proving the clerical accuracy of the records.

This is accomplished in practice by means of what is known as a Trial Balance. A Trial Balance is prepared by taking out on a sheet containing two cash columns ruled side by side, the debit and credit totals of each account in the Ledger.

The debit totals are entered in the left-hand column, and the credit totals in the right-hand column. The two columns are subsequently added, and, if every debit has correctly received its corresponding credit, and *vice versa*, the two columns will necessarily agree. If they do not agree, then the conclusion is that some error has been made, and steps must be taken to rectify it.

Let us assume that the following are the accounts of a Ledger and Cash Book preparatory to the extraction of a Trial Balance—

Dr. CASH ACCOUNT *Cr.* (1)

			£	s.	d.				£	s.	d.
	To H. Jones	1	40	–	–		By G. German	5	16	–	–
	„ W. White	2	20	–	–		„ F. French	6	24	–	–
	„ B. Blue	3	10	–	–		„ T. Turk	7	10	–	–
	„ R. Read	4	15	–	–		„ Trade Expenses	9	12	–	–
			85	–	–				62	–	–

Dr. H. JONES *Cr.* (1)

			£	s.	d.				£	s.	d.
	To Sales	1	40	–	–		By Cash	1	40	–	–

Dr. W. WHITE *Cr.* (2)

			£	s.	d.				£	s.	d.
	To Sales	1	50	–	–		By Cash	1	20	–	–
	„ „	1	10	–	–						

Dr. B. BLUE *Cr.* (3)

			£	s.	d.				£	s.	d.
	To Sales	1	15	–	–		By Cash	1	10	–	–

Dr. R. READ *Cr.* (4)

			£	s.	d.				£	s.	d.
	To Sales	1	20	–	–		By Cash	1	15	–	–
	„ „	1	10	–	–						
	„ „	1	5	–	–						

Dr. G. GERMAN *Cr.* (5)

			£	s.	d.				£	s.	d.
	To Cash	1	16	–	–		By Purchases	1	40	–	–

Dr. F. FRENCH *Cr.* (6)

			£	s.	d.			£	s.	d.
	To Cash . .	1	24	–	–	By Purchases .	2	24	–	–

Dr. T. TURK *Cr.* (7)

			£	s.	d.			£	s.	d.
	To Cash . .	1	10	–	–	By Purchases .	3	14	–	–
						" " .	4	18	–	–

Dr. S. SWEED *Cr.* (8)

								£	s.	d.
						By Purchases .	5	40	–	–

Dr. TRADE EXPENSES *Cr.* (9)

			£	s.	d.					
	To Cash . .	1	12	–	–					

Dr. PURCHASES *Cr.* (10)

			£	s.	d.					
	To Sundries .	1	136	–	–					

Dr. SALES *Cr.* (11)

								£	s.	d.
						By Sundries .	1	150	–	–

Let us now extract a Trial Balance of these accounts, and try to obtain a balance (i.e. equal debit and credit totals).

TRIAL BALANCE

	Dr. £	s.	d.	*Cr.* £	s.	d.
Cash.	85	–	–	62	–	–
H. Jones	40	–	–	40	–	–
W. White	60	–	–	20	–	–
B. Blue	15	–	–	10	–	–
R. Read	35	–	–	15	–	–
G. German	16	–	–	40	–	–
F. French	24	–	–	24	–	–
T. Turk	10	–	–	32	–	–
S Sweed				40	–	–
Trade Expenses . . .	12	–	–			
Purchases	136	–	–			
Sales				150	–	–
	£433	–	–	£433	–	–

It will be seen that the two totals are agreed at £433, and it may be assumed, therefore, that the records are arithmetically correct.

Balancing Accounts. Now, it will be recalled that in making the records of cash in the Cash Book, we were able to prove the accuracy of the amount of cash in hand by " striking the balance " of the Cash Book and " bringing down " as a balance the difference between the two sides.

Exactly in the same way all the other accounts of the Ledger may be " balanced," i.e. the difference between the totals of the two sides ascertained, and inserted on the side of the smaller total, and subsequently carried down to the *opposite* side of the account as a balance, whilst the totals of each side, having been made to agree, are ruled off. The advantages of this procedure are: (1) In the case of personal accounts it shows clearly the net amount owing to or by each person trading with the business; and (2) in the case of nominal accounts the net gain or loss on each account is shown; whilst (3) in the case of real accounts the net value of the property represented by the account is disclosed.

The balancing of the accounts in the Ledger tends, therefore, to make more concise and clear the information which the book-keeping records are designed to disclose.

Dr. W. WHITE *Cr.*

			£	s.	d.				£	s.	d.
	To Sales	1	50	–	–		By Cash	1	20	–	–
	" "	1	10	–	–		" Balance carried down	√	40	–	–
			60	–	–				60	–	–
	To Balance brought down	√	40	–	–						

Let us, for an example, " balance the account " of W. White given above. It will be observed that W. White's account has been debited with goods sold to him amounting in total to £60. On the other hand, he has been credited with cash received from him amounting to £20. The debit side, therefore, exceeds the credit side by £40. We therefore insert on the credit (or smaller) side the words " By Balance carried down," and in the money columns we enter the amount, £40. The total of each of the two sides is then £60. To preserve

the *double entry*, we carry down the balance to the debit side after the ruling off, and there state it as "To Balance brought down, £40." This is called a "debit balance," and shows that W. White owes us £40. He is therefore said to be a "debtor" for £40. Had the balance been on the opposite side, it would have been termed a "credit balance," and would have shown the amount owed by us to the "creditor."

It will be observed that, as the "Balance carried down" and the "Balance brought down" both appear in the same Ledger account, the folio column is ticked through in each case, the insertion of the folio being unnecessary. It will also be noted that the word "To" has been used before each entry on the debit side of the Ledger accounts, and "By" on the credit side. This is in accordance with custom, and is intended as a connection between the heading of the accounts and the entries in them. Thus, the first entry on the debit side of W. White's account should be read "W. White, Dr. (debtor) 'to' Sales," and the first entry on the credit side as "W. White, Cr. (creditor) 'by' Cash."

A Trial Balance may be extracted from the books at any time, or at any stage of the records. Provided that every transaction has been twice recorded, once on the debit side and once on the credit side, the Trial Balance will always agree. In practice, it is customary to extract the **balances of accounts** instead of the two totals of each account, because by this means there is obtained in the Trial Balance certain concise information which can be used for preparing the final accounts of the business without further reference to the actual books of account.

In order to show that the extraction of the balances, instead of the totals, of the accounts does not in any way affect the main object of the Trial Balance, which is the proving of the arithmetical accuracy of the records, the **balances of the accounts** given in the example on pages 27 and 28 are taken out in Trial Balance form on page 31.

Again, it is seen that the two columns of the Trial Balance agree, proving not only that the previous records were correct, but that the balancing of the accounts and their extraction into the Trial Balance has also been correctly accomplished.

It will be noted that the accounts of H. Jones and F. French have been omitted from the second Trial Balance. In each

TRIAL BALANCE

	Dr. £	s.	d.	Cr. £	s.	d.
Cash	23	–	–			
W. White	40	–	–			
B. Blue	5	–	–			
R. Read	20	–	–			
G. German				24	–	–
T. Turk				22	–	–
S. Sweed				40	–	–
Trade Expenses	12	–	–			
Purchases	136	–	–			
Sales				150	–	–
	236	–	–	236	–	–

of these cases the totals of each side agree. There is, therefore, no balance upon the accounts. They are neither debtors nor creditors, and therefore do not appear in the Trial Balance.

It is customary to keep separate Ledgers in most concerns for transactions with (*a*) debtors, and (*b*) creditors, and (*c*) for recording impersonal transactions.

Various names are used for these Ledgers, such as—

(*a*) Debit Ledger, Sales Ledger, Customers' Ledger, Outwards Ledger;

(*b*) Credit Ledger, Purchases Ledger, Inwards Ledger;

(*c*) Nominal Ledger, Impersonal Ledger, General Ledger.

SUMMARY

1. The Ledger is a book of accounts, which are classified under appropriate headings.
2. Ledger Accounts are divided into—
   (*a*) Personal Accounts recording transactions with persons.
   (*b*) Impersonal Accounts, which are sub-divided into—
   (1) Real Accounts, recording dealings in tangible property; and
   (2) Nominal Accounts, recording profits and losses, or gains and expenses.
3. All entries in the Ledger are made by "postings" from the subsidiary books.
4. Postings from the Cash Book are entered in the Ledger Accounts on the opposite side to that on which they appear in the Cash Book.
5. Sales are debited in the personal accounts in detail and credited in the Sales Account, which is an impersonal account, in total.
6. Purchases are credited in detail in the personal accounts and debited in total in the Purchases Account, which is also an impersonal account.

7. Wages and other trade expenses are debited from the Cash Book to impersonal accounts appropriately headed. They may be grouped together as "Trade Expenses."

8. A Trial Balance is a statement of the balances contained in the Ledger, which is extracted to prove the accuracy or otherwise of the Double Entry records.

EXERCISE 14

From the following particulars prepare the Cash Book, post to the Ledger Accounts, and extract a Trial Balance to prove the accuracy of your records—

			£	s.	d.
Jan.	1.	R. Smith received from L. Lone	60	–	–
	,,	He received from W. Jones	40	–	–
	3.	Paid J. Thomas	22	–	–
	4.	,, Howarth & Co.	24	–	–
	7.	Received from J. Thomas	18	–	–
	8.	Paid W. Jones	32	–	–

EXERCISE 15

			£	s.	d.
Apr.	6.	Cash in hand	125	–	–
	8.	Received from Sundry Sales	30	–	–
	10.	Paid X. Y. & Co., Ltd.	42	–	–
	18.	Received from A. Brown	14	–	–
	22.	Paid Rent	10	–	–
	28.	,, Wages	15	10	–
	,,	,, Trade Expenses	10	–	–
	30.	Received from Sundry Sales	36	–	–
	,,	Paid A. Brown	10	–	–

EXERCISE 16

Prepare the Sales Book, Purchases Book, Cash Book, and Ledger of R. Rigby from the following particulars, and prove the entries by a Trial Balance—

			£	s.	d.
July	1.	Borrowed from H. Hythe	40	–	–
	2.	Purchased Goods from Jones & Co.	120	–	–
	3.	Goods sold to Brown & Co.	80	–	–
	5.	Purchased Goods from R. Robinson	90	–	–
	,,	Received Cash from Jones & Co.	100	–	–
	6.	Sold Goods to J. Bright	30	–	–
	,,	,, ,, S. Smythe	40	–	–
	,,	,, ,, W. Wardle	60	–	–
	8.	Received from Brown & Co., Cash	80	–	–
	,,	,, ,, J. Bright Cash	30	–	–
	,,	Repaid Cash to Jones & Co.	100	–	–
	,,	Also paid Cash in settlement of their account	120	–	–
	9.	Sold Goods to Brown & Co.	120	–	–
	10.	Received from W. Wardle, Cash	50	–	–
	,,	Paid R. Robinson	60	–	–

EXERCISE 17

You are required to enter up the following transactions in the books of W. Wilkins, and to extract the Trial Balance on 31st December.

				£	s.	d.
Dec.	1.	Received the following Goods from A. Maker—				
		Tobacco	£50 – –			
		Cigars	30 – –			
		Cigarettes	190 – –			
		Snuff	2 – –			
				272	–	–
	2.	Borrowed Cash from L. Lender and paid it into the Bank		100	–	–
	9.	Sold to A. Smoker—				
		Tobacco	30 – –			
		Cigars	15 – –			
		who paid Cash same date		45	–	–
	14.	Sold to J. Haler—				
		Cigarettes	170 – –			
		Snuff	1 10 –			
				171	10	–
	15.	Bought from Fancy Goods Co.—				
		Walking Sticks	5 – –			
		Cigarette Cases	10 – –			
		Petrol Lighters	12 10 –			
				27	10	–
	16.	Received Cash from J. Haler		160	–	–
	,,	Paid Wages		10	–	–
	,,	,, Trade Expenses		4	–	–
	,,	,, into Bank		140	–	–
	27.	Sold J. Walker—				
		Walking Sticks	4 – –			
		Petrol Lighters	2 – –			
				6	–	–
	28.	Drew from Bank which was paid to A. Maker		170	–	–
	29.	Repaid part of Loan from L. Lender which was drawn from Bank		50	–	–
	30.	Paid Wages		10	–	–
	,,	,, Trade Expenses		5	–	–

EXERCISE 18

Write up the following transactions in the books of The Trading Co., and take out a Trial Balance—

			£	s.	d.
Oct.	1.	Purchased Goods from—			
		Dark & Co.	90	–	–
		Cotton Merchants Co.	35	–	–
		J. White	60	–	–
		M. Dawn	25	–	–

EXERCISE 18—(*contd.*)

			£	s.	d.
Oct.	3.	Sold Goods to—			
		R. Sprite	72	–	–
		S. Thomas	64	10	–
		T. Umber	158	–	–
		U. Veco	27	–	–
	4.	Received Cash from—			
		R. Sprite on account	50	–	–
		P. Smith—Loan	25	–	–
	5.	Paid Cash received yesterday into Bank			
	6.	Purchased further Goods from J. White	140	–	–
	7.	Sold S. Thomas further Goods value	15	–	–
	8.	Drew from Bank and paid Dark & Co. on account	50	–	–
		Sold goods to T. Umber	40	–	–
	9.	Received Cash from T. Umber and paid into Bank	158	–	–
	10.	Drew from Bank and paid			
		Cotton Merchants Co.	35	–	–
		J. White	80	–	–
		Rent	5	–	–
		Wages	10	–	–
	11.	Received Cash from			
		T. Umber on account	15	–	–
		S. Thomas	64	10	–
		and paid receipts into Bank			
	12.	Received Cash from U. Veco	5	–	–
	15.	Bought Goods from Dark & Co. value	70	–	–
	,,	Paid Petty Trade Expenses	2	10	–

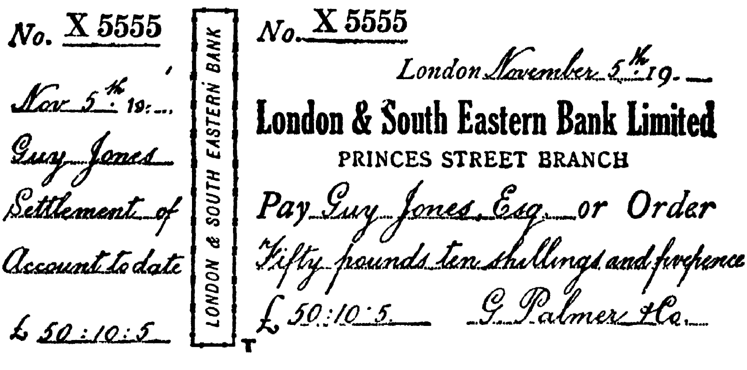
CHAPTER V

BANKING TRANSACTIONS

THE student must now turn his attention to the use of cheques for the payment and receipt of money in business, and to some of the general customs and regulations of banking.

The advantages to be obtained by the use of the facilities offered by the modern practice of banking have been almost universally recognized. Consequently, not only do the majority of traders, both great and small, make constant use of their " Bank Accounts " for the purpose of carrying on the financial side of their business, but many private persons possess Bank Accounts for the purpose of paying by cheque their domestic and other personal expenses, and of depositing their private incomes.

Opening a Bank Account. A trader opens a Bank Account by applying to the bank chosen, and depositing with the banker a sum of money. The banker usually requires references of the trader to persons of standing, and, after satisfying himself that the depositor is a man of integrity and financial stability, he issues to him a " cheque book." A form of a cheque with counterfoil attached is given below.


No. X 5555
Nov 5th 19..
Guy Jones
Settlement of
Account to date
£ 50 : 10 : 5

LONDON & SOUTH EASTERN BANK

No. X 5555
London November 5th 19..
London & South Eastern Bank Limited
PRINCES STREET BRANCH
Pay Guy Jones, Esq. or Order
Fifty pounds ten shillings and fivepence
£ 50 : 10 : 5   G. Palmer & Co.

A cheque may be described as an unconditional order in writing drawn upon a banker, authorizing him to pay to the

person named upon it, upon demand, a sum certain in money out of the funds which he holds on behalf of the drawer.

When the trader desires to pay his creditor, he fills up the cheque, making it payable to the creditor for the sum he wishes to pay to him, dates it, and signs it. This is termed " drawing a cheque." He makes a note on the counterfoil of the cheque book of the date, the name of the " payee " (i.e. the person to whom it is payable), and the amount, so that he may, if necessary, refer to it at any future time; or, by the aid of the counterfoil number, which corresponds with the cheque number, trace the cheque at any time. The cheque then presents the appearance given on page 35.

Before drawing the cheque, however, the trader should ascertain whether there are funds which he has deposited in the hands of the banker sufficient to meet the cheque, otherwise the bank will refuse to pay the cheque, i.e. will " dishonour " it. The dishonouring of a cheque casts serious reflections on the credit of the trader, and he would thereafter find some difficulty in inducing his creditor to accept another cheque in payment of money owing. The creditor would insist on having cash before parting with the goods, and this would mean a great inconvenience to the trader, and would considerably modify the extent to which he could trade.

Overdraft. If he should happen to be in the unhappy position of having insufficient funds standing to his credit in the hands of the banker, he may be able to arrange with the bank for an " overdraft." In such a case, the banker would probably require him to deposit some security, such as the deeds of property or the scrip for investments, or he might accept the guarantee of some person of known financial strength. Upon the receipt of the security, the bank would honour the cheque and the trader would thereby become the debtor of the bank for the amount it had advanced to meet the cheque. The sum so owing is termed an "overdraft."

Bearer and Order Cheque. After drawing the cheque, the trader sends it, usually by post, to his creditor. The cheque may either be a " Bearer " cheque or an " Order " cheque (i.e. it may be payable to " John Jones or Bearer," or to " John Jones or Order "). If it is an " Order " cheque, it is necessary for John Jones to indorse the cheque (i.e. to write his name on the back of the cheque), and then to take it to

the banker, who will pay to him the sum mentioned on it. If it is a " Bearer " cheque, indorsement is unnecessary. The banker may, in such a case, pay the amount named upon it to anyone who presents it, without incurring any liability if the person presenting it has come by it dishonestly.

Negotiation. The effect of the indorsement of the cheque by the payee is to convert it into a " bearer cheque," and if the payee so wishes, he may, instead of presenting it to the banker for payment, hand it on to some third person in payment of a debt owing to that party. The receiver of the cheque may then either present it for payment to the banker, or pass it on to a fourth party. This procedure is termed " negotiating " the cheque.

A cheque is therefore a " negotiable instrument," i.e. a document which can be transferred from one person to another by delivery (if payable to bearer), or by indorsement and delivery (if payable to order).

Kinds of Indorsements. There are several kinds of indorsements. That mentioned above, which converts an order cheque into a bearer cheque, is called an " indorsement in blank," or a " general indorsement."

The payee may, however, give a " special indorsement," which is effected by writing over his signature, " Pay A B or Order." In this case, before the cheque can be negotiated again, it requires A B's indorsement.

Now, it will be obvious to the student that there is always a danger of a " bearer " cheque getting into the hands of some person not entitled to it, who may convert it into cash and use the " proceeds " for his own purpose. Of course, this may also happen in the case of an " order " cheque, but, in the latter case, the additional crime of forgery would have to be committed, for the indorsement of the true owner would have to be forged.

Crossing a Cheque. To overcome this danger, the cheque may be " crossed," which is done by drawing two parallel lines across the face of the cheque, with or without the words " & Co." between the lines, thus—

The effect of this crossing is that the holder, or payee, of the cheque cannot obtain cash for it. He must " pay it in " to his Bank Account, when, if it is honoured, the banker will credit him with the proceeds. If it is an order cheque, the indorsement is, of course, still necessary.

As with indorsements, there are several kinds of crossings. That shown above is a " general crossing." If, instead of the words " & Co.," the name of a particular bank is inserted between the two lines, the effect is that the cheque must be paid into that bank for collection. This is known as a "special crossing." It is the name of the bank which constitutes the "special crossing"; the use of the two lines is optional.

The crossing may be further limited by the addition of the words "Account payee," which has the effect of preventing the cheque being credited to any account except that of the person to whom it is made payable.

"Not Negotiable." A further variation of the crossing is the addition of the words " Not negotiable." This does not mean that the payee can no longer transfer the cheque to a third person. It merely means that the person taking it is subject to the " defects in the title " of the person from whom he received it. A person with a good title to the cheque can give a good title to the receiver; but anyone with a bad title, that is, anyone who has obtained it dishonestly, cannot give a good title to any other person, although the latter may take it in perfect good faith, and may give something of value in exchange for it and without knowledge that the former holder had a bad title. For example, A receives such a cheque, which he indorses in blank. B steals the cheque and obtains cash for it from C. C pays it to D, his tailor. D banks it, when its history is discovered. Although D obtained it quite honestly, he has not a good title to it, for B could not give a good title, and C, from whom D received it, had not a good title. A can therefore claim the cheque back from D.

Post-dating. A cheque may be " post-dated," i.e. the date inserted in it may be a later date than that on which it is issued. The result in this case is that the banker cannot pay it until that date arrives. The post-dating of cheques is usually taken as a sign of weak financial standing, for the inference is that the drawer has insufficient funds at the bank to meet

it on the day on which it is drawn, although this may not necessarily be the case.

Ante-dating. If a cheque is dated with some date prior to its date of issue, it is said to be " ante-dated." This does not make much difference to the cheque; but there is the danger of it becoming " stale," and if the date on it be six months prior to the date of its presentation to the bank, the bankers will probably desire to refer to the drawer as a matter of precaution before making payment.

It may be further stated that the receiver of a cheque, if it is an " open cheque " (i.e. one not crossed) may cross it, or, if it is a crossed cheque, he may convert a general crossing into a special crossing. He may also add the words "Account payee," or " Not negotiable," but he must not delete those words if they are already on the cheque, nor can he convert a special crossing into a general crossing, nor a crossed cheque into an open cheque. He may thus restrict the negotiability of the cheque, but he cannot increase it. He must not, without the consent of the drawer, alter the date or the amount of the cheque. All alterations to cheques require the signature of the drawer over or near the alteration, to make the change valid.

How a Cheque is Dealt With. Having thus considered the nature of cheques, let us now trace the history of the life of a cheque a little further.

The trader has sent the cheque by post to the creditor in payment of his debt. Upon receipt of it, the creditor has several courses open to him, viz.—

1. If it is an open cheque, he may:
   (*a*) obtain cash for it from the bank;
   (*b*) pass it on to a third person; or
   (*c*) pay it into a Bank Account.

2. If it is a cheque crossed generally, he may:
   (*a*) pay it into a Bank Account; or
   (*b*) indorse it and transfer it to another party.

3. If it is a specially crossed cheque, he may:
   (*a*) pay it into a Bank Account at the particular bank named on the crossing; or
   (*b*) indorse it and pass it on to some person possessing an account at that bank.

4. If it is marked "Account payee," he must pay it into his own Bank Account.

It will be noted, therefore, that in each case he has the option of paying it into a Bank Account, except in the last case, where no option exists, for in that case he must bank it.

As a matter of practice, the large majority of cheques are paid into Bank Accounts, partly because the practice of crossing cheques is extremely common, and partly because this is the most convenient way of dealing with them.

Paying-in Slip. For this purpose, the banks supply their customers with "Paying-in Books," a form of which follows, and in which has been inserted the necessary matter to illustrate the use of the paying-in slip.

At the side of the slip, it will be noted, there are provided columns in which are inserted the detailed amounts of the country cheques (i.e. cheques drawn on banks in the Provinces), and of the London cheques (i.e. cheques drawn on London banks). The totals of these columns must, of course, agree with the amounts inserted in the outer columns of the slip.

Attached to the slip is a counterfoil on which the amount paid in is noted. It is also advisable to note on the counterfoil the details of the cheques paid in, although space for this purpose is not specifically provided. The practice is useful in order to trace the cheques at some later date, without reference to the original slip.

Having filled in the paying-in slip, the creditor takes the paying-in slip book, together with the cash and cheques, to the bank, and presents them at the counter. The cashier, or "teller," as he is termed, checks the slip with the cash and cheques paid in, tears out the slip, which he retains, initials or stamps the counterfoil, which then acts as an acknowledgment or receipt for the sum paid in, and returns the paying-in book to the customer. Meanwhile, the teller enters the record of the cash received in his Cash Book, whilst the slip is passed to the Ledger clerk, who uses it as a medium for crediting the customer's account with the sum paid in.

In the London banks it is not customary to credit cheques drawn upon country banks until they have been "cleared" (i.e. until they have passed through the Bankers' Clearing House, through the medium of which cheques are received

The person making the payment is requested to fill up this Memorandum, which will be returned to him initialled by the Cashier.

The London & South Eastern Bank, Ltd.

....14*th June*, 19......

Memorandum of receipt of

£....370 . 12 . 6........

to the credit of

Robert Falconer & Co.,

Ltd. ....

to whom the same is to

be accounted for.

........*London, June* 14................19.....

CREDIT................*Robert Falconer & Co., Ltd*................

In account with

The London & South Eastern Bank, Ltd.

CHEQUES and DRAFTS on London £	s.	d.	BILLS and CHEQUES on Country Banks £	s.	d.
110	4	6	72	3	–
29	2	8	14	6	–
13	14	–			
65	10	–	86	9	–
218	11	2			

	£	s.	d.
Bank of England Notes ..	10	–	–
£1 Notes	40	–	–
10s. Notes	10	–	–
Gold	–	–	–
Silver....£3 . 6 . –....Copper 10d	3	6	10
Money and Postal Orders ..	2	5	6
TOTAL CASH.. ..	65	12	4
Total of Cheques on London..	218	11	2
Total of Bills and Cheques on Country Banks..	86	9	–
Paid in by........*Selves*........... £	370	12	6

from the various banks and the proceeds collected from the banks upon which they are drawn). The practice in the Provinces is not so consistent, and the banks will often credit the customer with the whole of the cheques paid in at once. If a cheque is subsequently dishonoured, it will be debited to the customer's account as an "unpaid cheque," and returned to him marked in abbreviated terms with the reason.

Examples of such abbreviations are—

N/s.—Not sufficient funds (i.e. the funds standing to the drawer's credit are insufficient to meet the cheque).

R/D.—Refer to drawer. The drawer may for various reasons have instructed the banker to "stop" the cheque (i.e. to refuse payment).

"*Not in order.*"—i.e. some formality has not been complied with.

"*No effects.*"—No balance.

"*Drawer dead.*"—Notice of death or bankruptcy of the drawer stops automatically all cheques drawn by him.

Advantages of a Banking Account. The advantages of payment by cheque will be clear to the student. Money can easily be transmitted by post. There is no need for a trader to retain money on his premises, with the attendant risks of theft or accidental loss. Interest is paid by the country banker upon sums deposited pending their withdrawal by cheque. Against this, the banker charges a small commission, not usually more than $\frac{1}{8}$ per cent, for "working" the customer's Bank Account. In London no interest is allowed and no commission is charged. But if the banker finds the balance kept too small to be profitable, he will make an annual charge for conducting the account.

These advantages are so obvious that practically every trader now possesses a Bank Account. The result is that the use of cheques is extremely common, and the Bank Account in the trader's Ledger assumes large proportions. In order to avoid the necessity of constant postings from the Cash Book to the Bank Account, the latter account has been transferred from the Ledger and has been incorporated in the Cash Book, where it has been made an account of prime entry. That is to say, an extra column has been added to the Cash Book for the record of bank transactions, and when cheques are paid into the bank, the bank column is debited with the

sum paid in, and the posting is made from the bank column to the credit of the persons from whom the cheques were received. In a similar manner, when a cheque is drawn, the bank column is credited and the amount is posted to the debit of the person to whom the cheque has been made payable. The result is that the bank columns in the Cash Book form the account of the bank, which is debited with the cheques paid in by the trader and *received* by the bank, and is credited with the cheques drawn by the trader, which are the amounts paid or *given* by the bank, whilst the double entry is maintained by the postings from the Bank Account to the personal accounts of the debtors and creditors in the Ledger.

The balance at the bank may thus be readily ascertained, and may be compared with the Pass Book issued to the trader by the bank, which contains an exact copy of the trader's account as it appears in the bank's Ledger.

It is sometimes not convenient to debit to the bank column the whole of the cash and cheques received, as part of the cash may be required for cash payments, and, consequently, only a portion is paid into the bank. In such a case, it is necessary first to debit the cash column with the cash and cheques received, then to credit the cash column with the sum which cash *gives*, or pays in, to the bank. The bank column is then debited with the sum so paid in, the corresponding credit being the entry in the credit cash column. The corresponding credits for the debit cash entries are made by postings to the personal accounts of the debtors as in the simple form of Cash Book.

A third column is usually added to each side of the Cash Book for the record of "Discounts."

Cash and Trade Discount. Discounts may be divided into two classes, viz. Trade Discount and Cash Discount.

The former is an allowance made by the merchant or manufacturer to the retailer off the selling price of the goods. It sometimes represents the difference between the wholesale price and the retail price. It is, however, usually adopted as a ready means of varying prices without the need for the reprinting of catalogues. By increasing or decreasing the trade discount, the price is automatically lowered or increased, simply because the allowance off the selling price is varied.

Trade discount, being allowed in any event, does not appear in the books of account, but is deducted from the outward and inward invoices before they appear in the records.

Cash Discount is an allowance for prompt payment. In order to induce his customer to pay for his goods promptly, a merchant will offer a Cash Discount of, say, 5 per cent if payment is made within one month of the date of the invoice. Thus, a customer purchasing £100 worth of goods pays £95 for them (i.e. £100 - £5) if payment is made within the term of credit allowed—in this case, a month—otherwise he must pay the full £100. It is not always possible for a buyer to take advantage of the merchant's offer, and, consequently,

Date 19..		£	s.	d.
Jan. 1	Started business with cash in hand . .	600	–	–
2	Paid into Bank	560	–	–
4	Paid Wm. Brown by cheque . . .	247	10	–
	Discount allowed by him . . .	2	10	–
7	Sold Goods for cash	10	12	6
	Paid for Wages in cash	15	7	6
10	Received from J. Jones by cheque[1] .	98	–	–
	Allowing him discount	2	–	–
12	Paid into Bank	100	–	–
15	Paid Rent by cheque	20	–	–
	Paid for Stationery in cash . . .	3	5	–
	Bought Goods and paid cash . . .	17	5	6
16	Drew from Bank for own use . . .	10	–	–
	Paid F. Smith by cheque . . .	37	12	6
	He allowed me discount. . . .	1	7	6
18	Received from H. Robinson and paid into Bank	143	15	–
	Allowed him discount	2	5	–
19	Drew from Bank for Office . . .	25	–	–
24	Paid Salaries in Cash	12	10	–
	Received for Cash Sales . . .	17	4	6
27	Bought Goods by cheque . . .	24	12	6
	Paid for Office Expenses, cash . .	5	7	6
29	Received from Geo. Thompson, cheque .	71	15	–
	Allowing him discount	3	5	–
30	Paid into Bank	71	15	–

For the transactions on Jan. 2, 12, and 30, Bank will be debited, because it *receives*, and Cash will be credited, because it *gives*. For the transaction on Jan. 19, opposite entries will, of course, be made.

[1] N.B.—Cheques received are to be considered as Cash.

Dr. CASH | CONTRA *Cr.*

Date	Receipts	L.F.	Discount £	s	d.	Cash £	s.	d.	Bank £	s.	d
19..											
Jan. 1	To Capital					600	–	–			
2	,, Cash								560	–	–
7	,, Cash Sales					10	12	6			
10	,, J. Jones		2	–	–	98	–	–			
12	,, Cash								100	–	–
18	,, H. Robinson		2	5	–				143	15	–
19	,, Bank					25	–	–			
24	,, Goods					17	4	6			
29	,, G. Thompson		3	5	–	71	15	–			
30	,, Cash								71	15	–
			7	10	–	822	12	–	875	10	–
Feb. 1	To Balance in hand	b/d				37	1	6	510	15	–

Date	Payments	L.F.	Discount £	s.	d.	Cash £	s.	d.	Bank £	s.	d.
19..											
Jan. 2	By Bank					560	–	–			
4	,, W. Brown		2	10	–				247	10	–
7	,, Wages					15	7	6			
12	,, Bank					100	–	–			
15	,, Rent								20	–	–
,,	,, Trade Charges					3	5	–			
,,	,, Cash Purchases					17	5	6			
16	,, Drawing A/c								10	–	–
,,	,, F Smith		1	7	6				37	12	6
19	,, Cash								25	–	–
24	,, Salaries					12	10	–			
27	,, Goods								24	12	6
,,	,, Trade Charges					5	7	6			
30	,, Bank					71	15	–			
31	,, Balance in hand	c/d				37	1	6	510	15	–
			3	17	6	822	12	–	875	10	–

it is necessary for a record to be kept of those discounts which are earned, or which the buyer himself allows to his debtors. Hence the need for the third column in the Cash Book, the debit side (losses) representing the discounts allowed *by* us in connection with money received; and the credit side (gains) representing the discounts allowed *to* us in connection with money paid.

The student should observe that, while the Cash Account and Bank Account in the Ledger are merely Ledger accounts kept separate from the Ledger for the purpose of convenience, the Discount columns in the Cash Book do *not* form a Ledger account. They are merely memorandum columns. They save journalizing the discount transactions, since the items in them are posted to the debit or credit of the personal accounts *in detail*, and the *totals* are posted to the corresponding credit or debit of the Discounts Account.

From the imaginary transactions given on page 44 a Cash Book will be drawn up as a model (see page 45).

SUMMARY

1. The greater portion of modern commerce is carried on through the medium of Bank Accounts.

2. Money is paid into a Bank Account by the use of a "paying-in slip," upon which the details of cash deposited are entered.

3. Money is withdrawn from Bank Accounts by means of cheques.

4. Cheques are orders drawn on bankers instructing them to pay on demand to certain persons or their order, or to bearer, specified sums.

5. Cheques must be indorsed (unless they are bearer cheques) before they can be paid.

6. The effect of crossing a cheque is to prevent the banker paying cash out in exchange for it. Crossed cheques must be paid into a Bank Account.

7. Crossings may be: (*a*) General; (*b*) Special; (*c*) "Account Payee"; (*d*) "Not negotiable."

8. Cheques crossed generally can be paid into any Bank Account. Cheques crossed specially can be paid into an account at the Bank specified in the crossing only. Cheques crossed "Account payee" can only be paid into an account in the name of the payee.

9. Cheques crossed "Not negotiable" limit the negotiability of the cheque only to the extent that a holder cannot obtain or give any better title to it than the previous transferor possessed.

10. A "post-dated" cheque is one which is dated with a later date than that upon which it is drawn. It cannot be paid before the date it bears.

11. An "ante-dated" cheque is one which is dated prior to the date on which it is drawn. It can, therefore, be paid at any date subsequent to its drawing, but is in danger of becoming "stale."

12. A "dishonoured" cheque is one which for some specified reason a banker refuses to pay.

13. Bank transactions are recorded in the books of account by means of a Bank column added to each side of the Cash Book. This forms the "Bank Account," and is an account of prime entry.

14. Cash discount is an allowance for prompt payment.

15. Trade discount is an allowance off the purchase price made by a wholesale dealer to a retailer. It is allowed in any event.

16. Cash discounts are recorded in Discount columns added to each side of the Cash Book. The entries are posted with the cash records to the personal accounts. The total of the Discount column on debit side is posted to the *debit* of Discount Account, and the total of Discount column on the credit side is *credited* to Discount Account.

17. Trade discounts are deducted from sales and purchases before they are entered in the Sales and Purchases Books. They do not appear in the Ledger.

EXERCISE 19

Rule a form of three-column Cash Book and explain its use.

EXERCISE 20

Enter the following transactions in such a Cash Book—

19..			£	s.	d.
Aug.	1.	Balance in Bank	150	–	–
	,,	Cash in hand	30	–	–
	2.	Received from L. Lite	26	10	–
		in settlement of account for £28			
	,,	Received from W. Darke	127	10	–
		in settlement of account for £135 15s.			
	2.	Paid into the Midland Bank, Ltd., the sum of	150	–	–
	3.	Drew the following cheques and paid to—			
		(*a*) T. Thompson	22	–	–
		in settlement of account for £24 15s.			
		(*b*) S. Smooth	60	–	–
		(*c*) D. Dennis	40	–	–
		in settlement of account for £45			
	,,	Received from D. Dawn	30	–	–
		and allowed him £6 10s. discount			
	4.	Paid into Midland Bank	45	–	–
	7.	,, by cash: Wages	10	–	–
	,,	,, ,, Trade Expenses	5	–	–
	8.	Received from L. Lite	16	10	–
		in payment of account for £17, the difference being discount			
	,,	Received from T. Strong	80	–	–
		and paid these cheques into the Bank			
	10.	Drew from Bank by cheque for Office Cash.	10	–	–
	14.	Paid in cash: Wages	9	10	–
	,,	,, ,, Trade Expenses	2	10	–

Show the balance of the Bank Account and Cash in hand on 14th August, 19...

EXERCISE 21

On 1st March, 19.., Chas. Read commences business and borrows from his father, John Read, £250.

19..			£	s.	d.
Mar.	1.	He pays £200 into Commercial Bank			
	,,	He becomes tenant of a shop at £4 a month rent			
	,,	Paid Cash for Shop Fixtures . . .	20	–	–
	,,	Paid to G. Ellis for Stock in shop by cheque	80	–	–
	2.	Bought Goods from A. Reynolds . .	30	8	7
	4.	Paid Plate Glass Insurance . . .		10	6
	,,	Sold Goods to Beale & Co. . . .	9	11	6
	5.	,, Goods to Ashton & Mills . .	3	13	10
	,,	Paid for cleaning Shop	3	10	–
	6.	Receipts per Shop-till for week . .	18	5	6
	8.	Paid to Bank	30	–	–
	11.	Sold Goods to Beale & Co. . . .	5	19	7
	12.	Ashton & Mills pay Cash (discount allowed, 3s. 10d.)	3	10	–
	13.	Receipts per Shop-till for week . .	19	14	3
	,,	Paid self for Household Expenses . .	2	10	–
	,,	Paid Wages, 2 weeks	8	16	8
	15.	Received Cheque from Beale & Co., and paid into Bank (discount allowed 8s.) .	15	12	–
	,,	Paid to Bank	15	–	–
	,,	Paid for Advertising	2	10	–
	16.	Sold Goods to Beale & Co. . . .	2	–	5
	,,	Bought Goods from A. Reynolds . .	5	4	9
	18.	Paid Rates by Cheque	4	13	3
	,,	Paid A. Reynolds Cheque (discount 13s. 4d.)	35	–	–
	19.	Sold Goods to Ashton & Mills	14	3	7
	20.	Receipts per Shop-till for week . .	27	6	4
	,,	Bought Goods from A. Reynolds . .	4	3	7
	24.	Sold Goods to Beale & Co. . . .	4	6	11
	27.	Receipts per Shop-till for week . .	18	9	2
	,,	Paid month's Rent	4	–	–
	,,	Paid Self for Household Expenses . .	3	10	–
	,,	Sold Goods to Beale & Co. . . .	1	18	4
	,,	Paid Wages, 2 weeks	11	–	–
	29.	Paid for Repairs to Premises . . .	4	13	6

Enter in the proper books and prepare Trial Balance.

EXERCISE 22

(*A*) Define the following terms as applied to Banking: (*a*) Cheque, (*b*) indorsement, (*c*) post-dated cheque, (*d*) not negotiable, (*e*) stale cheque.

(*B*) What is the effect of "crossing" a cheque? How is it done? How many types of "crossing" are there, and what is the special purpose of each?

(*C*) What is the difference between Cash Discount and Trade Discount and how should each be treated in the books of account?

(*D*) What are the advantages of a banking account?

EXERCISE 23

Record the following transactions in a three-column Cash Book—

			£	s.	d.
Sept.	1.	Cash in hand	10	9	8
	,,	Balance owing to Bank	30	6	4
	2.	Received from A. Baker	39	–	–
		Allowed him £1 discount			
	,,	Received from B. Corney in full discharge of account for £72 3s.	69	11	–
	3.	Paid into Bank	108	11	–
	,,	Received from C. Duffy on account	15	–	–
	4.	Paid by cheque the following—			
		(*a*) D. Ernest, in settlement of account for £34	32	6	–
		(*b*) E. Frost on account	22	10	4
		(*c*) F. Grey	16	1	8
	,,	Paid into Bank, money received from C. Duffy			
	5.	Drew from Bank for self	5	–	–
		and paid—			
		(*a*) Rent	5	–	–
		(*b*) Carriage	1	15	–
		(*c*) Wages	6	–	–
	6.	Received from G. Hunter in settlement of account for £16	15	12	–
	,,	Received from A. Baker, allowing 10s. discount	19	10	–
	9.	Paid into Bank	30	–	–
	11.	Paid by cheque—			
		(*a*) E. Frost	24	4	6
		(*b*) H. Innes	25	17	–
		the latter in settlement of account for £26 10s.			
	12.	Drew from Bank cheque for	10	–	–
		and paid—			
		(*a*) Trade Expenses	2	10	–
		(*b*) Wages	6	–	–

CHAPTER VI

TRADING ACCOUNT
PROFIT AND LOSS ACCOUNT: BALANCE SHEET

HITHERTO our studies have been confined to the making of entries recording transactions in the subsidiary books or books of original entry; e.g. Sales and Purchases Books and Cash Book, and to the subsequent posting of these entries into the Ledger. We have found, in the Trial Balance, a means of proving the clerical accuracy of the postings, and by carrying down the balances on the personal accounts we have been able to ascertain the sums due to or from those persons with whom we have had business dealings.

There is, however, a much more valuable fund of information which can be derived from book-keeping records, viz.—

(1) The net result of all the transactions (i.e. the profit or loss resulting from carrying on the business); and

(2) the general financial position of the business.

The former is ascertained by the preparation of the Trading Account, and the Profit and Loss Account, and the latter by the construction of a Balance Sheet.

Trading Account. The Trading Account is an account prepared to show the result of the "trading" of a particular period (i.e. of the buying and selling of goods). It does not take into account the expenses of the business, except in the case of a manufacturing concern, when the wages and other direct expenses of converting the raw material into the saleable article are brought into account. In an ordinary merchant's Trading Account, only goods are dealt with.

In order to arrive at a true result, it is necessary to bring into account the value of the goods unsold at the opening and close of the trading period. Hence, when the period of buying and selling is ended and the books are to be closed, a stocktaking is necessary. The stock of goods on hand on the closing day of the period is listed in a schedule and valued at cost or market price, whichever is the lower. This valuation

is most important in arriving at a true result. Goods in stock should not be valued at selling price, because credit would thus be taken for profit included in the price, which is as yet unearned. Cost price is the proper basis of valuation, or, if the market price has fallen below the original cost price, then the goods must be valued at market price, so as to provide for the loss which has been incurred.

The stock is introduced into the books of account by debiting a Stock Account, the corresponding credit being found in the Trading Account. At the close of the next period, the opening stock is transferred to the debit of the Trading Account, so closing off the Stock Account, which, however, is immediately re-opened by debiting the value of the stock on hand at the close of the period.

The Trading Account is, therefore, prepared by debiting the account with, (1) the opening stock on hand; (2) the purchases of goods during the period, which figure will be found in the Purchases Account, and the transfer of which to the Trading Account will close the Purchases Account; and by crediting the account with (1) the sales of the period, transferred from the Sales Account, thus closing it; and (2) the value of the closing stock on hand.

The balance between the two sides, if a credit balance, represents the Gross Profit, and, if a debit balance, shows the Gross Loss.

The effect of making these entries is that the Trading Account has been charged with the goods which have come into the period, or which the trading period has "received" (i.e. the opening stock and the purchases), and has been credited with the goods which the period has "given" (i.e. sales and closing stock), which latter item may be regarded as being "given" to the next period of trading. Therefore, if the goods "given" have exceeded the goods "received," there will be a credit balance which represents a profit. If the position is reversed, then the resulting debit balance is the loss.

Gross Profit is, therefore, the excess of the selling price of the goods sold over their cost price. Gross Loss is, conversely, the excess of cost price over selling price.

Example. From the following particulars, prepare A B's Trading Account—

		£
1.	Stock at 1st January, 19..	3,000
2.	Purchases: year ending 31st December, 19..	15,000
3.	Sales, year ending 31st December, 19..	17,000
4.	Stock at 31st December, 19..	4,000

and show also the Purchases, Sales, and Stock Account ir A B's Ledger.

Dr. PURCHASES ACCOUNT *Cr.*

			£				£
19.. Dec. 31	To Sundries	P.B.	15,000	19.. Dec. 31	By Trading A/c		15,000

Dr. SALES ACCOUNT *Cr.*

			£				£
19.. Dec. 31	To Trading A/c		17,000	19.. Dec. 31	By Sundries	S.B.	17,000

Dr. STOCK ACCOUNT *Cr.*

			£				£
19.. Jan. 1	To Trading A/c		3,000	19.. Jan. 1	By Trading A/c		3,000
19.. Dec. 31	" Trading A/c		4,000				

TRADING ACCOUNT

Dr. YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

		£			£
19.. Jan. 1	To Stock	3,000	19.. Dec. 31	By Sales	17,000
Dec. 31	" Purchases	15,000		" Stock	4,000
	" Gross Profit c/d	3,000			
		21,000			21,000
			19.. Dec. 31	By Balance b/d	3,000

Expressed in another form, this Trading Account may bc set out thus—

	£
Stock at 1st January, 19.., at cost	3,000
Add Purchases during the year at cost	15,000
Total Goods received	18,000
Deduct Stock at 31st December, 19.., at cost	4,000
Therefore, Goods sold cost	14,000
These Goods were sold for	17,000
Therefore, excess of Selling Price over Cost Price (i.e. Gross Profit) is	£3,000

Profit and Loss Account. The function of this account is to show the net profit or loss resulting from the trading of the period after all the expenses incidental to the conduct of the business have been charged against the Gross Profit.

The account is, therefore, credited in the first instance with the balance of Gross Profit shown by the Trading Account. It is then debited with the Trade Expenses which have been incurred in earning that profit, and the balance remaining represents the net profit or loss for the period.

In the course of our studies hitherto, we have regarded Trade Expenses as a single item. Now, one of the main advantages of double entry book-keeping and of the preparation of the Profit and Loss Account is, that a comparison may be made between the expenses of a particular period and those of previous corresponding periods, either in total amount or in the proportion which they bear to "Turnover" (i.e. Sales), by which means leakages or extravagances are revealed. This information is valuable; but it would be manifestly more valuable if, instead of a comparison of the total Trade Expenses, a comparison of the details of which the Trade Expenses are composed were possible.

Consequently, we find that, in modern business houses, the Trade Expenses are very finely analysed, and, instead of a single item appearing under this heading in the Profit and Loss Account, numerous items, according to the extent of the sub-division adopted, are shown. Thus, we get such items as Wages, Salaries, Rent, Rates, Taxes, Insurance, Carriage, Coal, Gas, Water, Electricity, Printing, Stationery, Postage and Receipt Stamps, Interest, Bank Charges, etc.

In order to record these details, it is necessary to substitute for the Trade Expenses Account an impersonal account for each heading.

These accounts are built up partly by the posting of such items as wages, interest, bank charges, etc., from the Cash Book to appropriately headed accounts, and partly by the introduction of a modified form of the Purchases Book, known as the Invoice Analysis Book.

In the Purchases Book, only invoices for goods were entered; but in the Invoice Analysis Book, in addition to the goods invoices, invoices for expenses such as carriage, and demand

notes for rent, rates, etc., are entered, and are analysed or classified in appropriate analytical columns.

As with the Purchases Book, the detailed items are credited to the personal accounts, and the total of each analysis column is debited to an account opened and appropriately headed. The totals of these columns are, of course, cross-balanced with the grand total, so that the debits in the impersonal accounts will agree with the credits in the personal accounts in total.

The form and a further explanation of the Invoice Analysis Book will be found in Chapter VII.

When the trading period closes, the balances of the nominal accounts (or expense accounts) are transferred to the debit of the Profit and Loss Account, and are thus charged against the Gross Profit. The balance remaining then represents the net profit or loss.

Trial Balance. Before the Trading and Profit and Loss Accounts are prepared, it is usual to prepare a Trial Balance, to verify the accuracy of the books. This Trial Balance contains the whole of the impersonal balances, as well as the personal balances of the Ledger. From it, therefore, the Trading and Profit and Loss Accounts may be prepared without any immediate reference to the books, although it is subsequently necessary to close the nominal accounts and the Purchases and Sales Account by entering in them the record of the transfers made to the Profit and Loss Account and Trading Account respectively.

In the example given on page 55, the Trading Account will be prepared by the method indicated earlier in this chapter, and the balance of Gross Profit will be transferred to the credit of the Profit and Loss Account.

It is now necessary to examine the Trial Balance and to distinguish between the nominal accounts (i.e. those which record profits and losses) and the real and personal accounts.

Losses will appear as *debit balances* on nominal accounts, whilst *credit balances* on these accounts will represent profits. Therefore, to summarize the profits and losses in the Profit and Loss Account, it will be necessary to close all the nominal accounts by transferring the balances standing upon them to the Profit and Loss Account. This being done, the Trading

and Profit and Loss Accounts will read as shown below and on page 56.

Example. The Trial Balance in A B's books at 31st December, 19.., is given below.

The stock on hand at 31st December, 19.., was £4,000.

You are required to prepare the Trading and Profit and Loss Accounts for the year ending 31st December, 19...

TRIAL BALANCE AT 31ST DECEMBER, 19..

	£	£
Stock at 1st January, 19..	3,000	
Purchases	15,000	
Sales		17,000
Wages and Salaries	500	
Carriage	100	
Repairs	50	
Rent and Rates	75	
Insurance	30	
Taxes	40	
Postages and Receipt Stamps	10	
Travelling Expenses	60	
Printing and Stationery	40	
Discounts allowed	65	
Discounts received		75
Bank Interest and Commission	15	
Sundry Debtors	2,000	
Sundry Creditors		1,000
Bank		2,000
Cash in hand	20	
Buildings	7,000	
Machinery and Plant	10,000	
Capital		17,930
	£38,005	£38,005

TRADING ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

19..		£	19..		£
Jan. 1	To Stock	3,000	Dec. 31	By Sales	17,000
Dec. 31	,, Purchases	15,000		,, Stock	4,000
	,, Balance carried to Profit & Loss A/c	3,000			
		£21,000			£21,000

PROFIT AND LOSS ACCOUNT

Dr. FOR THE YEAR ENDING 31ST DECEMBER, 19.. *Cr.*

		£			£
19.. Dec. 31	To Wages & Salaries	500	19.. Dec. 31	By Balance from Trading A/c, being Gross Profit	3,000
	" Carriage	100		" Discounts received	75
	" Repairs	50			
	" Rent and Rates	75			
	" Insurance	30			
	" Taxes	40			
	" Postage and Receipt Stamps	10			
	" Travelling Expenses	60			
	" Printing and Stationery	40			
	" Discounts allowed	65			
	" Bank Interest and Commission	15			
		985			
	" Balance, being Net Profit	2,090			
		3,075			3,075

The student will note that the profit shown by—

	£
the Trading Account is	3,000
And there is a further profit derived from Discounts allowed to us by creditors for prompt payment amounting to	75
A total of	3,075
The losses incurred in various Trade Expenses, as set out in the Profit and Loss Account, amount to	985
Leaving a Net Profit for the year of	£2,090

We have thus achieved one of the primary objects of double entry book-keeping, for we have now been able to ascertain the net profit resulting from the carrying on of a business for a specified period.

Balance Sheet. There remains, however, another object yet to be attained, that is, the ascertaining of the general financial position of the business. Before doing so, it is necessary to bring to the student's notice three important definitions, viz. Asset, Liability, and Capital.

Asset is the term applied to any property owned by a trader in his business. It is represented by a debit balance on a real account or on a personal account; e.g. Cash, Buildings (which appear as debit balances on real accounts), and

debtors (which are represented by debit balances on personal accounts).

Liability is the term used to denote sums owing by a business. At the present moment, the only examples with which the student need be concerned are the "Creditors" (i.e. sums owing to persons who have given credit to the business, and which are represented by credit balances on personal accounts).

Capital is the excess of assets over liabilities. In other words, it is the proprietor's interest in the business—the sum by which the property of and sums due to the business exceed the sums owing by the business. If the assets were all realized and converted into cash, and out of the proceeds the liabilities paid, then the balance of cash remaining would be the capital of the proprietor of the business.

If we now turn our attention to the Trial Balance set out on page 55, and observe what balances remain in it after the nominal account balances have been transferred to the Profit and Loss Account, we shall find that they consist of assets, liabilities, and capital. If we take them and reconstruct the Trial Balance from them, we shall find that they do not balance. The reason is that there are two balances which our preparation of the Trading and Profit and Loss Accounts has introduced into the books which do not appear in the original Trial Balance. They are—

1. The stock on hand at 31st December, 19.., £4,000. This sum has been credited to the Trading Account. It was, therefore, necessary to open a Stock Account, or to utilize the Stock Account which was closed by the transfer of the opening stock to Trading Account, and to complete the double entry by debiting £4,000 to the Stock Account for the next trading period. (See Stock Account, page 52.) It thus becomes a debit balance on a real account (i.e. a Stock of Goods Account) and must be regarded as an asset, which, of course, it actually is.

2. The second balance created is the balance of the net profit shown by the Profit and Loss Account.

If we add these two balances to those remaining untouched by our preparation of the Trading and Profit and Loss Account, we shall get the Trial Balance shown on the next page.

TRIAL BALANCE AT 31ST DECEMBER, 19..
(After preparing Trading and Profit and Loss Accounts)

	£	£
Sundry Debtors	2,000	
Sundry Creditors		1,000
Bank		2,000
Cash in hand	20	
Buildings	7,000	
Machinery and Plant	10,000	
Capital		17,930
Stock at 31st December, 19..	4,000	
Profit and Loss Account		2,090
	23,020	23,020

Once more the accuracy of our records is proved, and from this Trial Balance we can prepare a statement of the financial position, viz. a Balance Sheet.

The Balance Sheet, then, consists of a summary of the debit and credit balances of the books after the Trading and Profit and Loss Accounts have been prepared and the nominal accounts closed off. It is a statement of assets and liabilities, showing, on the one hand, the property owned by the business, and, on the other, the sums owing by the business, and the balance of capital due to the proprietor.

In this particular case, the Balance Sheet will read as follows—

BALANCE SHEET AT 31ST DECEMBER, 19..

Liabilities		£	*Assets*	£
Sundry Creditors		1,000	Buildings	7,000
Owing to Bank		2,000	Machinery	10,000
Capital at 1st Jan., 19..	£17,930		Stock	4,000
Add Profit this year	2,090		Debtors	2,000
		20,020	Cash	20
		23,020		23,020

Note that the Balance Sheet is not an account, but that it is a Statement of Assets and Liabilities *at* a specified date, and not " for the year ending 31st December, 19..."

It will also be observed that the profit shown by the Profit and Loss Account is added to the capital. This is because the

proprietor's interest in the business has increased during the year by the amount of profit made, and it now constitutes a portion of that excess of assets over liabilities, which is the capital of the business.

It will be seen that the balances appear on the opposite sides of the Balance Sheet to those on which they are found in the books of account. This is the customary practice, and arises from an old custom by which the balances remaining in the books were closed off to a Balance Account. The re-opening of the books necessitated a second Balance Account in which, in order to preserve the double entry, the balances were placed upon the reverse side. It is this second Balance Account which gives the form to the modern Balance Sheet.

The practice of closing the books is now obsolete; but the form of the Balance Sheet still retains this trace of the old custom.

Opening Entries. In order to open, on double entry lines, the books of account of an already existing business, it is necessary—

(1) To ascertain: (*a*) the assets, and (*b*) the liabilities and proprietor's capital. The latter item is, as defined above, the excess of the assets over the liabilities; and

(2) through the medium of the Journal, to open accounts for each of the assets, debiting them with the values as ascertained, and crediting the total to "Capital Account," and, similarly, to open accounts in the Ledger for each of the liabilities which are credited to their respective accounts, the total being debited to Capital Account. The balance of the latter account then represents the proprietor's interest in the business (i.e. his capital).

Example. John Wilson decided to keep his accounts on the double entry principle. His assets at 31st December were: Cash in hand, £5; Cash in the bank, £260; Debts due from P. Pink, £30; L. Light, £17; G. Black, £40; Machinery and Plant, £400; Stock of Goods, £100; his liabilities at that date were, to G. Gray, £70; S. Strong, £35.

By the use of the Journal, open the books as at 1st January, 19.., give the Ledger accounts and prepare the opening Balance Sheet.

JOURNAL

			£	£
19.. Jan. 1	Sundries . . . . . . *Dr.*			
	To Capital Account			852
	Machinery and Plant . . .		400	
	Stock		100	
	P. Pink		30	
	L. Light		17	
	G. Black		40	
	Bank		260	
	Cash		5	
	being J. Wilson's assets at this date.			
Jan. 1	Capital A/c . . . . . *Dr.*		105	
	To Sundries—			
	G. Gray			70
	S. Strong			35
	being J. Wilson's liabilities at this date.			

Dr. CAPITAL ACCOUNT *Cr.*

			£				£
19.. Jan. 1	To Sundries . .	J.	105	19.. Jan. 1	By Sundries . .	J.	852
	,, Balance c/d .	√	747				
			852				852
				19.. Jan. 1	,, Balance b/d .	√	747

Dr. MACHINERY AND PLANT *Cr.*

			£				
19.. Jan. 1	To Capital A/c .	J.	400				

Dr. STOCK *Cr.*

			£				
19.. Jan. 1	To Capital A/c .	J.	100				

Dr. P. PINK *Cr.*

			£				
19.. Jan. 1	To Capital A/c .	J.	30				

Dr. L. LIGHT *Cr.*

			£				
19.. Jan. 1	To Capital A/c .	J.	17				

Dr. G. BLACK Cr.

19.. Jan. 1	To Capital A/c .	J.	£ 40				

Dr. G GRAY Cr.

				19.. Jan. 1	By Capital A/c .	J.	£ 70

Dr. S. STRONG Cr.

				19.. Jan. 1	By Capital A/c .	J.	£ 35

Dr. CASH ACCOUNT Cr.

			Dist.	Cash	Bank				Dist.	Cash	Bank
				£	£						
19.. Jan. 1	To Capital A/c .			5	260						

JOHN WILSON
BALANCE SHEET AT 1ST JANUARY, 19..

Liabilities	£	*Assets*	£
Creditors . . .	105	Machinery and Plant .	400
J. Wilson—Capital . .	747	Stock	100
		Debtors . . .	87
		Cash in Bank . .	260
		Cash in hand . . .	5
	852		852

SUMMARY

1. The result of the buying and selling of goods is shown by the preparation of the Trading Account.

2. The Trading Account is debited with the opening stock and the purchases, and is credited with the closing stock and sales. The balance of the account represents Gross Profit or Gross Loss.

3. Gross Profit is the excess of the selling price of goods over their purchase price.

4. The Profit and Loss Account is prepared in order to show the net profit or loss resulting from trading.

5. The Profit and Loss Account is credited with the Gross Profit

from the Trading Account and debited with all trade expenses and losses.

6. For the purpose of comparison, trade expenses are analysed under various headings (e.g. Wages, Rent, Carriage, etc.), and charged in detail to the Profit and Loss Account.

7. Losses are shown by debit balances on Nominal Accounts and profits by credit balances on Nominal Accounts.

8. A Balance Sheet is a Statement of Assets, Liabilities, and Proprietor's Capital prepared by extracting the balances in the books after the Trading and Profit and Loss Accounts have been compiled.

9. "Assets" is the term applied to property owned by a trader. They appear on the right-hand side of the Balance Sheet.

10. "Liabilities" are sums due to other parties by the trader. They appear on the left-hand side of the Balance Sheet.

11. "Capital" is the excess of Assets over Liabilities.

12. The Balance Sheet, therefore, shows the financial position of the business, for it discloses—

(*a*) the property owned by, and debts owing to, the business;
(*b*) the debts owing by the business; and
(*c*) the capital of the proprietor.

13. To open the books of account for a business, already existing, by use of the Journal—

(1) Debit the Assets Accounts and credit Capital Account.
(2) Credit the Liabilities Accounts and debit Capital Account.

EXERCISE 24

From the following Trial Balance prepare the Trading Account, Profit and Loss Account, and Balance Sheet at 31st December, 19.., of John Williams, in whose books the balances appear—

	£	£
Stock at 1st January, 19..	2,000	
Purchases	6,000	
Sales		9,000
Wages	500	
Carriage	160	
Rent and Rates	40	
Sundry Expenses	200	
Debtors	1,600	
Creditors		200
Discount	120	
Bank		160
Cash	10	
Fittings and Fixtures	300	
Capital		1,570
	10,930	10,930

The Stock on hand at 31st December, 19.., was £1,500.

EXERCISE 25

A. Gent was a merchant who carried no stock, all goods being sent direct to his customers from the various suppliers with whom he dealt. The following was the Trial Balance of his books at 30th June, 19... Prepare his Trading and Profit and Loss Accounts and Balance Sheet at that date.

	Dr.	*Cr.*
	£	£
Purchases	14,000	
Sales		20,000
Rent and Rates of Office	50	
Travelling Expenses	300	
Salaries and Wages	1,500	
Discount		160
Office Furniture	100	
Insurance	5	
Commissions Paid	2,600	
Carriage	250	
Sundry Expenses	40	
Bank	12,505	
Capital at 1st January, 19..		8,190
Debtors	3,000	
Creditors		6,000
	£34,350	£34,350

EXERCISE 26

On 30th November, 19.., the following Trial Balance contained the position of the affairs of Mr. John Mason from 1st July, 19..—

	Dr.			*Cr.*		
	£	*s.*	*d.*	£	*s.*	*d.*
Cash in hand	10	13	4			
Cash at Bank	120	16	8			
R. Jones	88	15	10			
Stock Account, 1st July, 19..	1,122	17	7			
Machinery and Plant	58	10	–			
W. Brown				75	12	6
Purchases	750	19	6			
Wages	210	10	6			
Rent	22	10	3			
Carriage	11	6	7			
Bad Debts Account (Dividend received)				5	10	6
Sales				1,166	13	4
Capital Account, John Mason				1,149	3	11
	£2,397	–	3	£2,397	–	3

The following were his transactions for the month of December—

		£	s.	d.	£	s.	d.
Dec. 2	Received by cheque of R. Jones				52	10	–
	Allowing him discount .				1	6	3
3	Paid into Bank				52	10	–
6	Paid by cheque, W. Brown .				71	17	6
	Discount				3	15	–
10	Sold Goods for cash . .				27	18	–
15	Drew cheque for Private A/c .				10	–	–
,,	Paid into Bank				27	18	–
20	Drew cheque for Office use .				30	–	–
	Paid by cash—						
	Wages	10	15	–			
	Carriage	1	15	–			
	Petty Expenses . .	3	17	6			
					16	7	6
31	Stock-in-trade, £1,075 19s. 3d.						

Post the above into proper books of account, and prepare Profit and Loss Account and Balance Sheet at 31st December, 19...

EXERCISE 27

Wm. Bates decides to keep his accounts by double entry. At 1st July his assets are valued as follows—

	£
Plant	1,000
Fixtures	200
Debts due from—	
R. Wright	120
W. Ronge	70
T. Straight	30
L. Crook	40
Stock of Goods	460
Cash in hand	10

His liabilities at this date were—

S. Lender	150
T. Johnson	240
London and Brighton Bank . . .	360

You are required to open the books for him on 1st July, and to prepare the Balance Sheet at this date.

EXERCISE 28

From the following data you are required to prepare the Trading Account, Profit and Loss Account, and Balance Sheet of A. Black at 31st December, 19...

	£	s.	d.
Stock at 1st July, 19..	1,007	2	6
Stock at 31st December, 19...	1,426	4	6
Purchases	3,421	12	3
Sales	4,502	10	3
Bank Overdraft at 31st December, 19..	100	15	–
Cash in hand at 31st December, 19..	5	–	–
Debtors at 31st December, 19..	375	8	4
Rent, Rates and Taxes	70	10	–
Carriage	172	7	6
Salaries and Wages	584	3	9
Discounts Received	87	10	2
Discounts Allowed	50	1	6
Insurance	27	–	–
Capital at 1st July, 19..	2,200	–	–
Fittings and Fixtures	250	2	6
Buildings	1,000	–	–
Other Trade Expenses	183	7	5
Creditors	256	–	4

CHAPTER VII

COLUMNAR SALES AND PURCHASES BOOKS

It has been pointed out in an earlier chapter that the finer the sub-division of the Trade Expenses, the greater is the amount of information obtained, and the better grip will the trader who understands his accounts have upon the financial side of his business. The principle of analysis does not stop at the dissection of the Trade Expenses, but is applied in many directions in the art of book-keeping. It is particularly valuable in the case of Departmental Accounts. A trader whose business is composed of various departments naturally desires to know the results attained by each department. Hence, we get Columnar or Departmental Sales Books and Purchases Books. The analysis in the case of the sales is obtained by the simple expedient of adding a series of columns to the ordinary forms of Sales Book. These columns are headed with the names of the various departments, and as each transaction is entered, the sum appearing in the " total " column is extended into the appropriate analysis columns. At the end of each period the analysis columns are added and the total agreed with the sum of the items appearing in the total column. The totals of the analysis columns are then posted to the various departmental Sales Accounts, and thus we get in these accounts the sums which otherwise would have been credited in total in a general Sales Account. They form, of course, the corresponding credits to the debits appearing in the debtors' personal accounts.

Example. William Ragge, a wholesale cloth merchant, deals in cotton, woollen, and silk goods. A form of Columnar Sales Book which will enable him to ascertain the yearly value of the sales of each of these three departments, in which six transactions are entered to illustrate its use, is given on page 67.

The principle of analysis is applied in an even more extended form to the Purchases Book. Instead of using this book purely for recording the purchases of goods, it is adapted to record a large number of the trading expenses, simply

COLUMNAR SALES BOOK

Date	Purchaser	Particulars	Fo.	Details			Total			Cotton Goods			Woollen Goods			Silk Goods		
				£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.
19.. Jan. 1	J. Draper	16 pieces White Linen	62				24	–	–	24	–	–						
3	A. Buyer	120 yards Woollen Cloth		6	15	6												
		110 yards Silk Ribbons	18	5	15	6							6	15	6	5	15	6
							12	11	–									
7	L. Hosier	15 pieces White Canvas		12	10	–												
		10 pieces Woollens		14	6	–												
		30 pieces Silk	34	25	–	–												
							51	16	–	12	10	–	14	6	–	25	–	–
12	T. Trott	17 pieces Silk	50				24	–	–							24	–	–
27	J. Draper	12 pieces Woollen Goods		22	8	–												
		150 yards Silk	62	15	–	–												
							37	8	–				22	8	–	15	–	–
31	L. Hosier	10 pieces Calico Print	34				12	15	–	12	15	–						
							£162	10	–	£49	5	–	£43	9	6	£69	15	6
										I.L.	42		I.L.	70		I.L.	91	–

by an extension of the form of the book by the addition of analysis columns. These columns provide both for the analysis of the goods purchased, and for such expenses as Carriage, Rent, Rates, Taxes, Insurance, Printing, Stationery, Advertising, Gas, Electricity, Coal, Water, and so forth. It is written up from the invoices for goods, the carriers' and railway companies' invoices, the demand notes for rent, rates, taxes, gas, and water; the renewal notice for insurances, and, generally from all documents which give rise to charges against the business. It ceases to be called "Purchases Book," and is termed "Invoice Analysis Book." (See also pages 52 and 53.)

Example. A form of Invoice Analysis Book for William Ragge, the merchant referred to in the previous example, showing by a few entries its use, is given on page 69.

As with the Columnar Sales Book, it is not the total column which is posted to the impersonal account, but the detailed analysis columns which are posted to the appropriate departmental purchases accounts and expense accounts indicated by the headings of the analytical columns; and, again, in these accounts we get the corresponding debits for the credits appearing in the personal accounts.

Departmental Trading Accounts. It frequently happens that a trader is not satisfied by merely ascertaining the total sales and purchases of the various departments, but desires to know the trading results of each department. In such a case, it is necessary to prepare departmental Trading Accounts, and the best method of displaying them is in columnar form.

For this purpose, it is necessary to ascertain the value of the stocks in each department, so that the various departmental Trading Accounts may be debited and credited with their respective opening and closing stocks. The account on page 70 will illustrate the Columnar Trading Account prepared from William Ragge's books.

It is possible to extend this principle of analysis to the trading expenses; but this offers complications owing to the difficulty of allocating the expenses proportionately to the various departments. As a general rule, the expenses are allocated somewhat as follows—

(*a*) Direct expenses; i.e. expenses which can be directly attributed to each department, are charged against that department.

INVOICE ANALYSIS BOOK

Date	No. of Invoice	Name	Fo.	Total Amount £ s. d.	Cotton Goods £ s. d.	Woollen Goods £ s. d.	Silk Goods £ s. d.	Carriage £ s. d.	Rent, Rates, and Taxes £ s. d.	Insurance £ s. d.	Printing and Stationery £ s. d.	Gas and Water £ s. d.	Etc. £ s. d.
19.. Jan. 7	1	Silk Producing Co.	72	150 – –			150 – –						
12	2	Diamond Weaving Co.	84	200 – –	200 – –								
13	3	London Central Rly.	26	25 – –				25 – –					
16	4	Calico Manufacturers' Association	30	70 – –	70 – –								
18	5	White's Woollen Mills, Ltd.	39	300 – –		300 – –							
29	6	A. Landlord	120	40 – –					40 – –				
30	7	Corporation of Belton	134	75 – –					75 – –				
31	8	R. Typesetter	172	4 – –							4 – –		
31	9	X. Water Co.	165	10 – –								10 – –	
				874 – –	270 – –	300 – –	150 – –	25 – –	115 – –		4 – –	10 – –	
					10	16	20	35	45		62	79	

Dr. DEPARTMENTAL TRADING ACCOUNT FOR THE HALF-YEAR ENDING 30TH JUNE, 19.. Cr.

		Cottons Department			Woollens Department			Silks Department					Cottons Department			Woollens Department			Silks Department		
		£	s.	d.	£	s.	d.	£	s.	d.			£	s.	d.	£	s.	d.	£	s.	d.
19.. Jan. 1	To Stock	1,200	–	–	1,800	–	–	600	–	–	19.. June 30	By Sales less Returns	5,600	–	–	6,800	–	–	3,000	–	–
June 30	,, Purchases less Returns	3,000	–	–	4,000	–	–	2,500	–	–	,,	,, Stock	1,000	–	–	1,500	–	–	800	–	–
,,	,, Balance, being Gross Profit	2,400	–	–	2,500	–	–	700	–	–											
		6,600	–	–	8,300	–	–	3,800	–	–			6,600	–	–	8,300	–	–	3,800	–	–

(*b*) Indirect or general administrative expenses may be apportioned between the departments on one or more of the following bases—

(1) In proportion to the sales of the departments.

(2) In proportion to the area of the floor space occupied by the departments.

(3) Upon a fixed percentage, determined by experience.

SUMMARY

1. Columnar Sales Books consist of the simple form of Sales Books extended by the addition of analysis columns for the dissection of the sales for each department.

2. Columnar Purchases Books (or Invoice Analysis Books) are the simple form of Purchases Books extended by analysis columns to provide for the classification, not only of purchases, but also of the trading expenses.

3. Columnar Trading Accounts are built up from the information supplied by the foregoing books, together with the stocks of each department. They show the gross profits made by each department.

4. Columnar Profit and Loss Accounts may be prepared by analysing the trade expenses and apportioning them between the various departments in accordance with certain rules. They show the net profits earned by each department. Commonly, however, it is the practice to credit the gross profits from the columnar Trading Accounts to a General Profit and Loss Account, which is then debited with the trading expenses ascertained by the use of the Invoice Classification Book.

EXERCISE 29

A. What is the purpose of—

(*a*) Columnar Sales Books;

(*b*) Invoice Analysis Books?

Draft a form of each for use in recording the transactions of a Wine and Spirit Merchant who also deals in cigars and cigarettes.

B. What is the object of preparing Departmental Trading and Profit and Loss Accounts?

C. On what bases should (*a*) Direct and (*b*) Indirect trading expenses be allocated for the purposes of Departmental Profit and Loss Accounts? Give examples of direct and indirect trading expenses.

EXERCISE 30

The books of the Departmental Store Co. showed the following balances at 31st December, 19..—

			Dr.	*Cr.*
			£	£
Sales	Dept.	A		35,000
	,,	B		30,000
	,,	C		42,000
Purchases	,,	A	27,000	
	,,	B	24,500	
	,,	C	32,000	
Salaries and Wages	,,	A	3,500	
	,,	B	2,600	
	,,	C	4,200	
Rent, Rates, etc.	,,	A	500	
	,,	B	400	
	,,	C	750	
General Expenses	,,	A	1,500	
	,,	B	1,200	
	,,	C	1,650	
Stock	,,	A	3,000	
	,,	B	2,500	
	,,	C	4,000	
Debtors			13,000	
Creditors				2,000
Capital				13,300
			£122,300	£122,300

The Stocks at 31st December, 19... were: A Dept., £2,000; B Dept, £3,000; C Dept., £1,000.

Prepare Trading and Profit and Loss Account showing the departmental results.

EXERCISE 31

Record in the books of The General Dealers' Co. the following transactions, and prepare the Departmental Trading Account, the General Profit and Loss Account, and the Balance Sheet at 31st January, 19... All payments unless otherwise stated are made by cheque and all receipts, including the cash sales, are paid into Bank.

			£	s.	d.
Jan.	1.	Cash in hand	20	–	–
	,,	,, in Bank	650	–	–
	,,	Stocks on hand—			
		Grocer's Department	800	–	–
		Draper's Department	400	–	–
	2.	Purchased from R. Brown—			
		Grocery Goods	120	–	–
	,,	Purchased from T. Smith—			
		Drapery Goods	290	–	–

(*Continued*)

			£	s.	d.
Jan.	3.	Sold to R. Wright—			
		Drapery Goods	100	–	–
		Grocery Goods	60	–	–
	4.	Bought of L. Lemon—			
		Grocery Goods	160	–	–
	5.	Bought of S. Sweeper—			
		Drapery Goods	170	–	–
	7.	Cash takings for the week—			
		Grocery Department	200	–	–
		Drapery Department	170	–	–
	8.	Paid R. Brown	110	–	–
		in settlement of his account			
	9.	Received from R. Wright	147	10	–
		Allowed him Discount	12	10	–
	10.	Sold to B. Benson—			
		Grocery Goods	60	–	–
		Drapery Goods	30	–	–
	12.	Sold to R. Wright—			
		Grocery Goods	140	–	–
		Drapery Goods	80	–	–
	14.	Purchased from R. Brown—			
		Grocery Goods	220	–	–
	,,	Cash Sales for the week—			
		Grocery Goods	160	–	–
		Drapery Goods	90	–	–
	16.	Paid T. Smith on account	200	–	–
	18.	,, L. Lemon in settlement	155	–	–
	19.	,, R. Brown in settlement	205	–	–
	20	,, S. Sweeper on account	120	–	–
	21.	Cash Sales for the week—			
		Grocery Goods	190	–	–
		Drapery Goods	75	–	–
	24.	Purchased from T. Smith—			
		Drapery Goods	300	–	–
	,,	Purchased from R. Brown—			
		Grocery Goods	150	–	–
	26.	Paid T. Smith on account	220	–	–
	,,	,, S. Sweeper in full settlement	38	–	–
	28.	Sold A. Alton—			
		Grocery Goods	60	–	–
		Drapery Goods	40	–	–
	,,	Cash Sales for the week—			
		Grocery Goods	210	–	–
		Drapery Goods	100	–	–
	,,	Drew cash from Bank	70	–	–
	29.	Paid Rent for the month	40	–	–
	,,	,, Carriage for the month	70	–	–
	,,	,, Wages for the month by cash	65	–	–
	31.	Cash Sales to date—			
		Grocery Goods	40	–	–
		Drapery Goods	25	–	–
	,,	Paid sundry Trade Expenses by cash	10	–	–

(*Continued*)

The Stocks on hand at 31st January, 19.., were: Grocery Department, £650; Drapery Department, £600.

EXERCISE 32

The following are the transactions of the P.W.G. Co. for the month of July—

		Piano Dept.			Gramophone Dept.			Wireless Dept.		
		£	s.	d.	£	s.	d.	£	s.	d.
July 6.	Cash Sales for week	70	–	–	125	–	–	260	–	–
	Sales on Credit this week	100	–	–	225	–	–	142	10	–
	Purchases	240	–	–	300	–	–	560	–	–
	Stock at 1st July	1,000	–	–	1,240	–	–	900	–	–
,, 13.	Cash Sales this week	65	–	–	100	–	–	270	–	–
	Cash received for Credit Sales	75	–	–	210	–	–	130	10	–
	Credit Sales this week	150	–	–	217	–	–	165	10	–
	Purchases paid for	200	–	–	190	–	–	450	–	–
	Purchases this week	25	–	–	100	–	–	220	–	–
	Expenses paid	125	–	–	120	–	–	122	–	–
,, 20.	Cash Sales this week	82	–	–	130	–	–	280	–	–
	Cash received for Credit Sales	160	–	–	220	–	–	140	10	–
	Purchases paid for	25	–	–	110	–	–	100	–	–
	Credit Sales this week	90	–	–	220	–	–	152	–	–
	Purchases this week	170	–	–	150	–	–	320	–	–
	Expenses paid	125	–	–	122	–	–	130	–	–
,, 27.	Cash Sales this week	95	–	–	145	–	–	297	–	–
	Cash received for Credit Sales	145	–	–	210	–	–	160	–	–
	Purchases paid for	150	–	–	145	–	–	300	–	–
	Credit Sales this week	160	–	–	210	–	–	172	–	–
	Purchases this week	40	–	–	25	–	–	260	–	–
	Expenses paid	127	–	–	120	–	–	123	–	–
	Stock	1,087	–	–	1,860	–	–	700	–	–

All purchases were paid for by cheque, all expenses were paid in cash, and the balance of cash in hand was paid into the Bank weekly.

With the aid of the following data, prepare the Departmental Trading Account and Balance Sheet at 27th July.

	£	s.	d.
Balance in Bank, 1st July	1,200	–	–
Cash in hand ,,	5	–	–
Debtors ,,	500	–	–
Creditors ,,	305	–	–

CHAPTER VIII

RETURNS INWARDS AND OUTWARDS

IN almost every class of business, occasions arise from time to time when it is necessary to return goods purchased to the sellers, and to accept from purchasers the return of goods previously sold to them. The reason for such returns may be that the goods are defective, not in accordance with the order or with the sample, or that an excess quantity has been sent. Whatever may be the reason of the return of the goods, it is necessary that, after they have been accepted and agreed to by the recipients, some record should be kept of them in the books of account. For this purpose a "Returns Inwards Book" and a "Returns Outwards Book" must be kept, the former to record goods returned *to* the firm, and the latter to record goods returned *by* the firm.

As with the sales and purchases, the information from which these records are made is obtained from the warehouse.

When goods are returned inwards, the warehouse clerk must record them in his Goods Received Book, and there must be issued either from the warehouse or from the counting-house a credit note, which notifies the sender of the goods that he has been credited with the value of the returns.

The form of the credit note is usually as follows—

CREDIT NOTE

LONDON, 24*th October*, 19..

MESSRS. BLACK & WHITE,

BY THE BRITISH MERCANTILE CO., LTD. *Cr.*

			£	s.	d.
19.. Oct. 23	By Goods returned this day . .		15	–	–

This note, which is printed in red to distinguish it from the invoices (or debit notes), is dispatched to Messrs. Black & White, by whom it is used as the basis for the entry in their Returns Outwards Book. As the credit notes are received,

they are numbered in consecutive order, placed upon a file, and the details are entered in the Returns Book thus—

RETURNS OUTWARDS BOOK
(Of Messrs. Black & White)

Date	No. of Credit Note	Particulars	Led. Fo.	Amount £	s.	d.
19.. Oct. 23	54	British Mercantile Co., Ltd. .		15	–	–

This entry is confirmed by a comparison with the Warehouse Dispatch Book, in which the record of the goods returned to the British Mercantile Co., Ltd., will appear. Meanwhile, the British Mercantile Co., Ltd., record this transaction in their Returns *Inwards* Book, as follows—

RETURNS INWARDS BOOK
(Of the British Mercantile Co., Ltd.)

Date	No. of Counterfoil	Particulars	Led. Fo.	Amount £	s.	d.
19.. Oct. 23	172	Black & White—Goods .		15	–	–

It is customary to keep the credit notes in books containing counterfoils numbered consecutively, and it is from the carbon counterfoils that the records in the Returns Inwards Book are built up.

Some firms not only issue credit notes for goods returned inwards, but also make a point of sending debit notes with goods returned outwards. The debit notes in these cases are identical in form with the invoices referred to in Chapter III. They may be used by the receiver as an additional check on the Returns Inwards Book.

The Returns Outwards Book is posted by crediting the Returns Outwards Account with the total value of the goods returned monthly or at other stated periods, and by debiting the persons from whom the goods were originally bought.

In the case of the Returns Inwards Book, it will be necessary to credit the customer with the goods which he has returned (or *given*), whilst the Returns Inwards Account will be debited with the periodical totals.

When Returns Accounts are not raised, goods returned inwards should be debited to Sales Account, and those returned outwards credited to Purchases Account. These accounts would then show respectively the net amount of sales and purchases.

Even where Returns Accounts are kept, it is important that Returns Inwards should be shown as a *deduction* from sales, and Returns Outwards as a *deduction* from purchases in the Trading Account. Otherwise the sales and purchases would be unduly inflated and of little value for comparative or costing purposes; e.g.—

Dr. TRADING ACCOUNT *Cr.*

19..		£	£			£	£
Jan. 1	To Stock		1,000	Dec. 31	By Sales	8,000	
Dec. 31	„ Purchases	5,000			*Less* Returns Inwards	1,500	
	Less Returns Outwards	500					6,500
			4,500	„	„ Stock		2,000
„	„ Balance—Gross Profit		3,000				
			8,500				8,500

It sometimes happens that, where goods delivered are defective, an allowance is made instead of the goods being returned. Similar allowances also have to be made in the case of overcharges arising from the insertion of wrong prices in the original invoice, or from errors in calculation. In each of these cases, credit and debit notes should be exchanged and the allowances entered in the appropriate Returns Books, which are then termed "Returns and Allowances Books." An alternative method is to use the Returns Books solely for the recording of goods returned inwards and outwards, and to pass all allowances made or received through the Journal. Thus—

			£ s. d.	£ s. d.
19..				
Feb. 4.	Allowances Account	*Dr.*	4 10 –	
„	To Robinson Bros.			4 10 –
	Overcharge on Goods delivered 9th January, 19..			

SUMMARY

1. Returns made to or by a business are recorded in Returns Books.
2. Goods returned to the trader appear in a Returns Inwards Book, are debited to a Returns Inwards Account, and credited to the person making the return.
3. Goods returned by the trader are entered in a Returns Outwards Book. They are debited in detail to the persons to whom they are returned and credited in total to Returns Outwards Account.
4. These books are also frequently used to adjust allowances and overcharges for goods; but where it is desired to keep the Returns Books solely for Returns, the Journal is used to record allowances and other adjusting entries.
5. Returns and Allowances Outwards and Returns and Allowances Inwards must be deducted from the Purchases and Sales respectively in the Trading Account.

EXERCISE 33

Make the necessary entries recording the following transactions in the appropriate books—

			£	s.	d.
Jan.	1.	Returned to J. Smith, Goods value	20	4	6
	,,	Returned to R. White, Goods value	10	3	6
	12.	Received Goods returned by B. Black.	15	1	9
	,,	Allowed T. Thomas for faulty Goods	7	2	–
	25.	Returned to L. Goodman, Goods value	17	16	–
	,,	Agreed an Allowance to be made by R. Thompson for short weight	2	9	–
	27.	Received Goods returned by R. Hood	20	1	4
	,,	C. Plaint objected to the quality of Goods supplied, and agreed to allow him	5	–	–

Post the totals of the books to the appropriate accounts in the Ledger.

EXERCISE 34

Assuming that in the previous exercise the total sales were £5,060 2s. 8d., and total purchases £3,174 2s. 6d.; the opening stock £2,000 and the closing stock £1,700, prepare a Trading Account showing the gross profit.

CHAPTER IX

PETTY CASH BOOK

It has been pointed out earlier in these chapters that the development of banking facilities has resulted in the payment of accounts, to a large extent, by means of cheques. There are, however, in connection with all businesses, a large number of small expenses which it is inconvenient to pay otherwise than in cash. The payment of these small items is commonly entrusted to a junior clerk, who is known as the petty cashier. It is necessary that some system of recording the Petty Cash, which will afford a check upon the petty cashier and bring the records of the petty cash expenditure frequently under the eye of the cashier, should be adopted.

Imprest System. The best system for this purpose is known as the Imprest System. Briefly, the system is as follows—

The petty cashier is entrusted with a fixed sum, called the "Imprest," which is estimated to cover his probable expenditure over a certain period, say, one month. Out of this sum he makes the necessary payments, and at the close of the period produces the record to his senior, who, after satisfying himself that the entries are in order, refunds to the petty cashier the amount he has paid. The effect of this is to bring the balance in the hands of the petty cashier up to the original amount of the Imprest.

The advantages of this system are that: (1) The petty cashier must always account for the fixed amount of the Imprest, either in cash, or in cash plus vouchers for expenses paid; and (2) the petty cash expenditure is regularly brought to the notice of the cashier, owing to the need for the refund to be made.

The form on the next page represents the Petty Cash Book, in which some entries have been made to illustrate the working of the system.

The Petty Cash Book in this case forms an account kept separate from the Ledger, for convenience. It is debited with the sum advanced by a posting from the Cash Book. The expenditure is analysed in the appropriate columns and is

Dr. PETTY CASH BOOK *Cr.*

Date	C.B. Fo.	Amount			Date	Particulars of Payments	Voucher No.	Total			Carriage			Postages and Receipt Stamps			Sundries		
		£	*s.*	*d.*				£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*	£	*s.*	*d.*
19.. Jan. 1	17	10	–	–	19.. Jan. 2	To R. Brown . . .	1		5	–								5	–
					3	,, Porterage . . .				6									6
					8	,, C. Carrier . . .	2		2	9		2	9						
					10	,, Postage Stamps .			10	–					10	–			
					17	,, L. White . . .	3		4	–								4	–
					24	,, Porterage . . .				6									6
					25	,, Receipt Stamps .			10	–					10	–			
						,, Tram Fares, etc. .				8									8
											e	tc	.	e	tc	.	e	tc	.
								7	11	6	1	16	–	2	–	–	3	15	6
					31	,, Balance c/d . .		2	8	6									
		10	–	–				10	–	–									
Feb. 1	Balce.	2	8	6								82			94			12c	
,,	24	7	11	6															
		10	–	–															

posted to the debit of the various expenses accounts in total. The subsequent refund of the expenditure is posted from the credit of the Cash Book to the debit of the Petty Cash Book. Thus, the double entry is maintained. It is important to remember that any balance shown in this book is a balance on a Ledger Account, and must, consequently, be included in any Trial Balance that may be prepared.

BANK PASS BOOK

The Bank Pass Book is the name given to the book in which banks supply their customers with copies of their accounts as they appear in the bank's Ledgers, and by means of which the customer is enabled to check the records contained in the bank columns of his own Cash Book.

The customer will frequently find that the balance shown by the Bank Pass Book does not agree with the balance shown by his own Cash Book. On checking the detailed items in each book, he will discover that the difference will be accounted for either by cheques which he has paid into the bank not being credited to his account by the bankers, or because cheques which he has issued have not yet been presented for payment.

Reconciliation Statement. It is therefore advisable to prepare a Bank Reconciliation Account, and to enter it, by way of memorandum, in the Cash Book. The reconciliation is effected by *adding* to the balance as shown by the Bank Pass Book the cheques which have not been credited by the bank, and by *deducting* the cheques which have been issued but not presented by the payees to the bank for payment. The result should then agree with the Bank Balance as shown by the Cash Book.

The following is an example of a Bank Reconciliation Account—

	£	s.	d.	£	s.	d.
Balance in Bank as per Bank Pass Book				476	12	6
Add cheque not cleared—A. Brown				71	15	6
				548	8	–
Deduct cheques not presented—	£	s.	d.			
W. Green	25	–	–			
F. White	14	12	–			
				39	12	–
Balance as per Cash Book (Bank Account)				£508	16	–

It is perhaps necessary to warn the student that if the bank be overdrawn, that is, if the balance stands to the debit of the customer, it will be necessary to reverse the additions and deductions. In such a case, the unpresented cheques will be added to the overdrawn balance shown by the Bank Pass Book, and the uncleared cheques will be deducted in order to effect the reconciliation.

SUMMARY

1. Petty Cash should be recorded on the Imprest System.
2. The advantages of the Imprest System are—
   (*a*) The petty cashier must always account for a fixed sum.
   (*b*) The Petty Cash Book is subjected to frequent and regular supervision.
3. A Bank Reconciliation Account is a statement prepared to show how the difference arises between the balance of the Bank Account in the Cash Book and that of the Bank Pass Book, and to "reconcile" the two balances.

EXERCISE 35

1. Illustrate the use of a Petty Cash Book upon the Imprest System, in the case of a business where the monthly payments of Petty Cash average the sum of £9.

2. From the following data ascertain what was the balance of the Bank column of the Cash Book on 30th April, 19.., in the books of J. Collins.

	£	s.	d.	£	s.	d.	
(1) Balance of Bank Pass Book at 30th April, 19..				170	6	8	*Cr.*
(2) Cheque paid in 29th April, 19.., but not credited				75	14	2	
(3) Cheques unpresented at 30th April, 19..—							
Black & White	24	8	2				
J. Smith & Co.	140	–	–				
L. Thomas	6	4	8				
(4) Bank Interest credited in Bank Pass Book, but not in Cash Book				4	10	–	
(5) Bank Commission debited in Pass Book but not entered in Cash Book				2	2	6	

EXERCISE 36

The Cash Book of a trader on 30th July, 19.., showed a credit balance in the Bank of £170. The Bank Pass Book, however, showed him to be overdrawn £5. What steps would you take to account for the difference?

Draft a Bank Reconciliation Account explaining your answer.

EXERCISE 37

Lancashire and Cheshire Union

(*a*) Rule a form of Petty Cash Book kept on the "Imprest" System, and enter therein the following—

19..			£	s.	d.
Jan.	1.	Received from Cashier	5	–	–
	2.	Carriage		15	–
	,,	Telegrams		3	2
	7.	Postage Stamps	1	–	–
	12.	A B Railway Fare to Preston		4	9
	19.	Post Cards (stamped)		4	2
	25.	Tram Fares			8
	31.	Received from Cashier, amount of disbursements			

(*b*) What do you understand by a Bank Reconciliation Account? Prepare one with imaginary figures to illustrate your answer.

EXERCISE 38

Royal Society of Arts

On 1st January, 19.., Henry Cross found that the balance standing to his credit in his Banker's Pass Book amounted to £152 16s. 1d.; while the balance at the Bank on that date, according to his Cash Book, amounted to £150 10s. Upon examination, he found that a cheque for £25, which he had paid in on 30th December, 19.., had not yet been placed to his credit in his Pass Book; and that a cheque for £27 6s. 1d., which he had drawn on 29th December, 19.., had not been presented by the payee for payment. From the above particulars, prepare a statement reconciling the two balances, and commonly called a "Reconciliation Statement."

EXERCISE 39

Royal Society of Arts

Rule a columnar Petty Cash Book containing provision for the following headings: Postage, Telegrams, etc.; Carriage; Office Expenses; Stationery, etc.; Travelling; Salaries and Wages; and Sundries.

Record the undermentioned transactions in the Petty Cash Book. Bring down the balance as on 6th December, 19.., and enter the amount which should be received from the Cashier to make up the amount of the "Imprest," viz. £20.

Transactions

19..			£	s.	d.
Dec.	1.	Received from the Cashier a cheque (which was cashed) for £12 8s. 7d., the amount required to make up the amount of the "Imprest," viz.	20	–	–
	,,	Purchased Stamps	1	10	–
	,,	Paid Office Cleaner		5	–
	2.	Purchased Stationery		12	–
	,,	Paid for Telegram to J. Brown		1	8

EXERCISE 39—(*contd.*)

TRANSACTIONS—(*contd.*)

19..		£	s.	d.
Dec. 2.	Purchased new Office Stool		12	–
3.	Paid Fare to Chiswick		1	–
,,	Paid Account for Telephone Trunk Calls for November	1	18	9
4.	Paid Carrier's Account	1	2	4
,,	Received from Inland Revenue for spoiled Stamps	1	8	6
,,	Paid for Insertion in Directory		5	–
,,	Paid for Return Fare to St. Albans		3	10
,,	Purchased Packing Materials	1	19	4
5.	Paid Window Cleaner		6	6
,,	Purchased Pens and Pencils		5	3
6.	Paid Wages to two casual men at 5s. per day each for three days	1	10	–
,,	Paid Salaries to Office Boy and Typist	1	15	–

EXERCISE 40

On the 31st December, 19.., the Pass Book of Jones & Timson showed a balance of £979 18s. 3d. From the following particulars give the balance that would be shown in the firm's Cash Book on 31st December.

Dec. 31. Paid to Bank, £351 7s. 2d., which was credited in Pass Book on 1st January, 19..

,, The following cheques were drawn—

Jones, £100	Bleak, £4 5s. 6d.
Timson, £100	Wages, £213 7s.
Turveydrop, £75	Petty Cash, £25
Peggotty, £3 2s. 6d.	Smith & Sons, £3 10s.

Of these, only the cheques for Wages and Petty Cash appeared in the Pass Book

On 31st December the Bank had charged for Interest £7 5s. This item was entered in the firm's Cash Book on 1st January, 19...

CHAPTER X

BAD DEBTS

FEW businesses can be carried on, however carefully the accounts of credit customers may be supervised, without some accounts becoming in whole or in part irrecoverable. These irrecoverable accounts become known as *Bad Debts*, and as they are lost to the business, they must, in common with other losses and expenses, be written off; that is to say, they must be deducted from the profits made, so as to show in the Profit and Loss Account the actual net gain realized.

To effect this, an account is opened in the Ledger under the title "Bad Debts," and to this account any such irrecoverable debts are transferred, the Bad Debts Account being debited, and the account of the debtor being credited.

This is accomplished through the medium of the Journal, and the Journal entry to record the transfer would be—

> Bad Debts Account *Dr.*
> To A B——
> being the amount standing to the debit of A B now written off as irrecoverable.

When the accounts are made up at the close of the trading period, the amount standing to the debit of the Bad Debts Account, which represents the amount of debts written off during that period as irrecoverably lost, must be transferred to the debit of the Profit and Loss Account in common with other losses and expenses.

Example. On 31st December, 19.., John Wright, upon examining his accounts, finds the following balances amongst his debtors—

(*a*) Leonard Long. £13 (owing for seven years).
(*b*) B. Racer. £40.
(*c*) Thos. Jones. £24.

He determines to write off these debts as bad for the following reasons, viz.—

(*a*) Long's debt is statute barred (i.e. it has been outstanding for more than six years), and Wright is, therefore,

debarred by the Statute of Limitations from taking legal proceedings for its recovery.

(*b*) B. Racer has become bankrupt. His assets are insufficient to pay the costs of the bankruptcy, and there can, therefore, be nothing out of which the creditors can be paid.

(*c*) Thos. Jones has emigrated, it is believed, to Australia, but his address is unknown and the recovery of the debt is hopeless.

Record the writing off of these bad debts and show the accounts in the Ledger relating thereto.

JOURNAL

			£	s.	d.	£	s.	d.
19.. Dec. 31	Bad Debts Account . *Dr.*		77	–	–			
	To Sundries—							
	L. Long . . . for debt barred by statute					13	–	–
	B. Racer . . . for irrecoverable debt due to his bankruptcy					40	–	–
	Thos. Jones . . for irrecoverable debt, Debtor having absconded					24	–	–

LEDGER

LEONARD LONG

Dr.			£	s.	d.			*Cr.* J.	£	s.	d.
19..	To Balance. .	√	13	–	–	19.. Dec. 31	By Bad Debts A/c	1	13	–	–

B. RACER

Dr.			£	s.	d.			*Cr.* J.	£	s.	d.
19..	To Balance. .	√	40	–	–	19.. Dec. 31	By Bad Debts A/c	1	40	–	–

THOS. JONES

Dr.			£	s.	d.			*Cr.* J.	£	s.	d.
19..	To Balance. .	√	24	–	–	19.. Dec. 31	By Bad Debts A/c	1	24	–	–

BAD DEBTS ACCOUNT

Dr.		J.	£	s.	d.			*Cr.* P.L	£	s.	d
19.. Dec. 31	To Sundries .	1	77	–	–	19.. Dec. 31	By Profit & Loss A/c Transfer		77	–	–

Reserve for Bad Debts. The system referred to above of writing off bad debts as and when they are discovered to be

actually irrecoverable is very common in practice; but it is open, however, to two serious objections, viz.—

(*a*) The periodical charges for bad debts fluctuate considerably, and as more bad debts are naturally incurred during periods of bad trade, heavier charges fall against Profit and Loss when the business is least able to bear them.

(*b*) Doubtful debts are ignored, because only actual bad debts are dealt with. Consequently, the assets are over-stated in the Balance Sheet, as it is improbable that the debts will realize the value placed upon them.

These difficulties are overcome by providing *in advance* a *Reserve* to cover losses by bad debts. The amount of this Reserve (or provision) may be determined by one of the following methods, viz.—

(1) a fixed sum sufficient to cover the anticipated losses may be set aside and maintained; or

(2) a percentage of the outstanding debts at the close of each trading period may be reserved; or

(3) which is more scientifically correct, the list of debtors should be gone through, the age of the debts examined, the usual terms of credit observed, and a specific reserve made in respect of each doubtful debt, the total of such reserves being the amount of provision to be made.

The amount of the reserve having been determined, it is necessary to introduce it into the books of account. For this purpose a "Reserve for Doubtful Debts Account" must be opened and credited with the amount of the reserve, a corresponding debit being made in the Profit and Loss Account, thus—

Profit and Loss Account *Dr.*
To Reserve for Doubtful Debts
For amount reserved to meet anticipated Bad Debts.

At the close of the next trading period, if the Reserve previously made has been intelligently estimated, there should be a small credit balance on the Reserve for Doubtful Debts Account. The amount of reserve is again ascertained in accordance with the particular method adopted, and the *excess* of this figure over the balance of the Reserve for Doubtful Debts Account is debited to Profit and Loss Account and credited to the Reserve for Doubtful Debts Account, thus

bringing up the credit balance on the latter account to the actual amount of the reserve fixed upon.

The following is an example of a Reserve for Doubtful Debts Account—

The debts outstanding at 1st January, 19.., were £5,000 in respect of which a reserve of 5 per cent was created. On 30th April, 19.., X and Y, who owed £100, failed, and on 31st October, 19.., A B's debt of £110 was found to be bad. The debts outstanding at 31st December, 19.., were £5,500, and a similar reserve of 5 per cent is to be made. Show the Reserve for Doubtful Debts Account for the period.

Dr. RESERVE FOR DOUBTFUL DEBTS ACCOUNT *Cr.*

			£				£
19..				19..			
Apr. 30	To X and Y Bad Debt		100	Jan. 1	By Profit and Loss A/c 5% on £5,000		250
Oct. 31	" A B, Bad Debt		110				
				19..			
Dec. 31	" Balance c/d		275	Dec. 31	" Profit and Loss A/c		235
			485				485
				19..			
				Dec. 31	By Balance b/d, being 5% on £5,500		275

The amount charged to Profit and Loss Account at 31st December, 19.., is arrived at as follows—

	£
Reserve of 5% on £5,500	275
Less Balance to credit of Reserve for Doubtful Debts at 31st December, 19..	40
Amount to be charged to Profit and Loss Account at that date	£235

NOTE. If the bad debts during the year had amounted to £290, instead of £210, there would have been a *debit* balance of £40 on the Reserve Account, and in this case the balance must be *added* to the reserve made, in order to arrive at the proper charge to Profit and Loss Account, making it £315.

The balance of the Reserve Account must not be shown as a liability in the Balance Sheet, but as a deduction from the total of the debtors.

Overdue Accounts. Before debts are written off as irrecoverable, it is, of course, necessary that the trader should take steps, if possible, to get in the outstanding amounts. In the

ordinary course of events, when the period of credit allowed to the debtor has expired, and the date when a debt is due for payment has arrived, it is usual to issue a "Statement" to the debtor. (See Chapter III.) In practice, these Statements are issued at the end of the month prior to that in which payment is due. They are regarded as reminders to the debtor of the sum due for payment. If the debt is not paid upon this Statement, it becomes overdue, and from time to time further Statements are issued. If it becomes long overdue, a polite intimation is usually given of this fact. In course of time, the reminders become less polite and more threatening, until at last notice is given that if the debt be not paid it will be placed in the solicitor's hands for collection, and, subsequently, legal proceedings may have to be taken to recover the amount of the debt and the costs of the proceedings. Discretion must be exercised, for, occasionally, if the debtor is hopelessly insolvent, it is only "throwing good money after bad" to go to the expense of suing a debtor who cannot pay in any event.

Interest on Overdue Accounts and Loans. When a purchaser fails to pay his account upon the due date after a Statement has been rendered, it is not an uncommon practice to charge him with interest upon the amount of the debt for the period after the due date during which it remains unpaid. Notice is given to him of the intention to charge interest, and the entry of the charge is made in the books by debiting the debtor's account and crediting Interest Account.

As there is no special book through which this record can be conveniently passed, the Journal must be brought into use.

Example. A debt of £120 was due from Arthur Bolton on 30th April, which remained unpaid until 31st July. Bolton agreed to pay 5 per cent interest upon the debt for the term during which it was overdue. Enter the record of this charge in the books of the creditor.

JOURNAL

			£	s.	d.	£	s.	d.
July 31	Arthur Bolton . . *Dr.*		1	10	–			
	To Interest Account .					1	10	–
	for 5% interest on £120 overdue to 3 months (30th April to 31st July)							

Dr. ARTHUR BOLTON *Cr.*

			£	s.	d.				£	s.	d.
19.. Apr. 30	To Balance.	√	120	–	–	19.. July 31	By Cash	C.B.	121	10	–
July 31	„ Interest.	J.	1	10	–						
			121	10	–				121	10	–

Dr. INTEREST ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
	To Profit & Loss A/c		1	10	–	19.. July 31	By A. Bolton	J.	1	10	–

A similar procedure is necessary to record the charging of interest on loans made *by* a trader, whilst the Journal entry would be reversed in order to record interest on loans made *to* a trader. Thus—

JOURNAL

			£	s.	d.	£	s.	d.
June 30	J. Jones . . . *Dr.* To Interest on Loans . being Interest at 5% on Loan of £500 advanced to Jones for six months ending this date		12	10	–	12	10	–
Dec. 31	Interest on Loans . . To Wm. Thomas . . being Interest at 6% on Loan of £1,000 advanced to me by Wm. Thomas for three months to date		15	–	–	15	–	–

SUMMARY

1. Irrecoverable debts, being no longer assets, must be transferred from the personal accounts of the debtors to Bad Debts Account, whence they are charged against Profit and Loss Account as losses.

2. Doubtful debts should not be written off, but should be anticipated by means of a Reserve for Bad and Doubtful Debts, the amount reserved being charged against Profit and Loss Account and credited to Reserve for Bad and Doubtful Debts Account.

3. The Reserve created must be shown in the Balance Sheet as a deduction from the total debtors on the Assets side. It should never be placed on the Liabilities side of the Balance Sheet.

4. Interest on Overdue Accounts, and on Loans, must be charged to the personal account and credited to Interest Account through the Journal. Interest payable on Overdue Accounts or Loans must be

credited to the creditor and debited to Interest Account through the same book. The balance of the Interest Account must be carried to the Profit and Loss Account.

EXERCISE 41

A. Martin's books showed his total debtors to be £6,000. Of these, £175 represented debts due from persons who had been made bankrupt and it was not expected to recover anything in respect of them. £50 was due from B. Adpayer and £20 from S. Slowe. These debtors were always late with their payments and had been specially so recently, and some doubt existed as to the debts being good. The remaining debts were considered good, but as trade was bad it was decided to make a general reserve of 5% in respect of them.

What provision would you make for these debts, and how would you record it in the books of account?

EXERCISE 42

On 1st January L. Smith borrowed from D. Lender the sum of £200 on which he agreed to pay interest at 6% per annum, and on the same day lent to C. Cadger £150 at 7½% per annum interest. On 1st July Smith paid the interest due to Lender, but Cadger advised Smith that he was unable to pay the loan interest due, and said that he could not repay the loan in full, but might, in the course of twelve months, be able to pay £100 of it. Smith made up his accounts at 30th June. Make the necessary entries in his books for the Interest on Loans payable and receivable, and any provision you think necessary in respect of Cadger's loan.

EXERCISE 43

On 1st January, 19.., the state of Henry Flint's business was as follows—

Cash in hand, £350 12s. 6d.; Goods on hand, £410.

Debtors: A. Berks, £100 7s. 6d.; B. Devon, £75 5s.; C. Kent, £320 15s.

Creditors: D. Lancs, £225 5s.; and F. Yorks, £80 15s.

You are requested to find and credit his Capital. Then enter the following transactions in suitable books, post them to the Ledger, draw out a Trial Balance, balance the accounts, and make out a Profit and Loss Account and Balance Sheet.

19..							£	s.	d.
Jan.	1.	Paid Salaries					25	10	–
	2.	,, Rent					30	5	–
	4.	Received Cash of C. Kent	£217	–	–				
		Allowed Discount in addition	3	15	–				
							220	15	–
	6.	Paid for Stationery					2	12	6
	7.	Sales to C. Kent					131	10	6

19..					£	s.	d.
Jan. 8.	Received Cash for a Bad Debt previously written off				15	10	9
9.	Bought Goods of D. Lancs				50	–	–
10.	Received Cash of A. Berks				75	–	–
,,	Wrote off Balance of his Account as a Bad Debt				25	7	6
11.	Cash Sales				75	10	–
13.	,, received from C. Kent				100	–	–
14.	Paid Wages				10	7	6
15.	C. Kent bought Goods				41	9	6
16.	Cash Purchases				68	10	4
17.	Paid to D. Lancs, Cash	£124	–	–			
	Discount allowed in addition	1	5	–			
					125	5	–
18.	F. Yorks purchased Goods				30	–	–
20.	Cash received of B. Devon	£74	–	–			
	Allowed Discount in addition	1	5	–			
					75	5	–
21.	Purchases from G. Notts				128	18	6
22.	Paid F. Yorks, Cash	£49	–	–			
	He allowed Discount in addition	1	15	–			
					50	15	–
23.	Sales to B. Devon				112	2	3
24.	Paid Cash to D. Lancs	£98	–	–			
	Discount allowed in addition	2	–	–			
					100	–	–
25.	Paid Wages				10	7	6
28.	B. Devon bought Goods				35	–	–
29.	Bought Goods of F. Yorks				76	4	6
30.	Drew Cash for private purposes				20	–	–
31.	Interest on Capital				4	10	–
,,	Goods on hand				366	–	4

EXERCISE 44

In the books of James Threlfall the following debtor balances appeared at 31st December, 19..—

	£	s.	d.
1. L. Longe	75	6	8
2. T. Holdfast	39	8	–
3. S. Smethurst	27	10	–
4. W. Badpenny	76	4	8
5. A. Shirker	60	–	–

The first two debts were absolutely bad. The remaining three were doubtful, but it was estimated that all but £40 would probably be received in respect of them.

Open the debtors' accounts in the Ledger. Write off the Bad Debts and create a Reserve for the probable loss on the Doubtful Debts.

EXERCISE 45

In the books of R. Sutton at 30th June, 19.., there existed a Reserve for Bad Debts amounting to £600. Of the debts against which this Reserve was made, £150 had been proved to be bad. The total debts, including these bad debts, were £14,000. It was decided to write off the bad debts out of the existing Reserve and then to raise the Reserve to 5% on the total amount of debtors.

Show the Reserve for Bad Debts Account, giving effect to these decisions.

CHAPTER XI

PARTNERS' ACCOUNTS

HITHERTO we have dealt only with the accounts of a business owned by a single proprietor, known as a sole trader's accounts. We must now turn our attention to the accounts of businesses owned by more than one proprietor. These may be divided into two classes, viz.—

(1) Partnerships, and

(2) Joint Stock Companies.

It is proposed to treat only of the first mentioned class at this point. The accounts of joint stock companies will be reserved for a later chapter.

The law governing partnerships is to be found in the Partnership Act, 1890. There is also a Limited Partnership Act, passed in 1907, but so little advantage is taken of the privileges offered by this latter Act that it is almost a dead letter, and we need not, therefore, concern ourselves with it further.

Definition of Partnership. The Act of 1890 defines partnership as " the relation subsisting between persons carrying on a business in common with a view to profit." It is necessary that all the conditions of this definition should be complied with before a partnership can exist, and before the parties concerned can be made liable as partners, or claim the privileges of partners.

The main characteristics of a partnership are—

1. All partners (usually) subscribe towards the capital of the business.

2. Every partner has unlimited personal liability for the debts of the partnership.

3. Profits and losses are shared between the partners.

4. Every partner is entitled to take part in the business of the firm and to inspect the accounts.

Deed of Partnership. Partnerships are usually constituted by a written agreement between the partners, known as the *Deed* (or *Articles*) *of Partnership*. A properly drawn deed would provide, amongst other things, for the following—

1. The amount of capital to be contributed by each partner.

2. The proportion in which profits are to be shared, and losses contributed.

3. The rate of interest to be allowed on partners' loans.

4. The amount of drawings on account of profits and interest which each partner may make during any trading period.

5. Whether interest is to be allowed on capital or charged on drawings, and, if so, at what rate.

6. Whether partners are entitled to salaries, and, if so, to what amount.

7. The valuation of the goodwill on the death or retirement of a partner, or on the incoming of a new partner.

It is not essential that a Deed of Partnership should exist: the agreement between the partners may be verbal, or implied from a course of dealing.

In the absence of any agreement between the partners, verbal or otherwise, Section 24 of the Partnership Act, 1890, makes the following provisions—

1. Partners are entitled to share equally in capital and profits, and must contribute equally to all losses.

2. No interest is to be paid on partners' capital; but

3. Interest at the rate of 5 per cent is to be allowed on advances made by partners apart from capital.

4. Partners are not entitled to salaries.

Partners' Capital. The partners of a business stand in the same relation to the business as a sole trader does to his business, and the capital they contribute together corresponds with the capital of the sole trader. Now, it will be recalled that the sole trader's capital was recorded to his credit in a "Capital Account." It is, therefore, necessary in the case of a partnership to open a Capital Account for **each partner,** and to credit to each partner's Capital Account the sum he has contributed to the capital of the business.

Partners' Drawings. The sums drawn by partners, according to the agreement between them, should be debited to a "Drawings Account" opened in the name of each partner, so that at the end of each trading period the partners' Drawings Accounts will show the drawings made by them respectively. The total of the account must then be transferred to the debit of the respective partners' Capital Accounts.

Partners' Salaries. Where it is agreed that partners shall receive salaries for their share of the work of carrying on the partnership business, and the salaries are regularly paid, a nominal account for Partners' Salaries should be opened and debited with the cash paid. If the salaries are not actually paid as they become due, they should be first debited to Partners' Salaries Account and subsequently credited to the appropriate Partners' Drawings Account, since the drawings must be deemed to be on account of salaries in such a case.

Partners' Loans. Advances made by partners beyond the amount agreed to be contributed as capital must be posted from the debit side of the Cash Book to the credit side of a Loan Account, opened in the name of the partner making the advance.

Partners' Interest on Capital and Loans. Where it is agreed that, in view of the unequal contributions of capital by partners, interest shall be allowed on capital, then the interest due to each partner, calculated on the varying balance of his Capital Account, must be debited to "Interest on Capital Account" and credited to the respective partners' Capital Accounts.

Similarly, interest on loans will be charged to an "Interest on Loans Account" and, unless paid in cash, credited to the partners' Loan Account or Current Account.

The balances of the Interest on Capital Account and Interest on Loan Account form charges to be made against the Gross Profit before the net profits which are divisible between the partners are ascertained. They must, therefore, be transferred at the close of each trading period to the debit of Profit and Loss Account.

Partners' Shares of Profits and Losses. In order to record the division of profits or losses between the partners, it is customary to add a third portion to the Trading and Profit and Loss Account, this portion being known as the "Appropriation of Profit Account." Into this account the balance of the Profit and Loss Account is carried down; if a profit, to the credit side; if a loss, to the debit side. The balance so brought down is then transferred to the respective partners' Capital Accounts in the proportion in which they have agreed to share profits or losses, or, in default of agreement, equally. This has the effect of completely closing the Profit and Loss Account.

Except for this variation, the ordinary trading transactions of a partnership are recorded exactly in the same way as those of a sole trader, and are summarized in a similar manner in the Trading and Profit and Loss Account.

It will now be observed that the result of the above mentioned transactions, which are peculiar to partnerships, is summarized in the Capital Accounts of the partners.

Each Capital Account will show—

1. On the credit side:
   (*a*) The capital contributed;
   (*b*) the interest on capital; and
   (*c*) the share of profits (if any).
2. On the debit side:
   (*a*) The total drawings of the partner for the period;
   (*b*) the share of losses (if any); and
   (*c*) the balance of capital at the close of the trading period to be carried down.

Example. A B and C D entered into partnership on 1st January, 19.., and they contributed to the capital £5,000 and £3,000 in cash respectively. The following were some of the terms of the Partnership Deed—

1. Profits were to be shared in proportion to Capital.
2. Interest at 5 per cent was to be allowed on Partners' Loans and on Partners' Capital.
3. C D was appointed manager at a salary of £500 per annum, with a commission of 3 per cent on profits after all interest and other charges had been made.
4. Each partner was entitled to draw up to £400 per annum in anticipation of profits and interest. No interest to be charged on drawings.

On 1st July, 19.., A B advanced to the business a loan of £1,000.

On 31st December, 19.., the position was as follows—

1. Each partner had drawn £400 against profits and interest.
2. C D had, in addition, received his salary, but not his commission.
3. The profits, after charging Interest on Capital and Loan, and Partner's Salary, but before charging C D's commission, were £4,000.

You are required to show how the entries relating to these transactions would appear in the partnership books, and to

state the final balances of Capital due to A B and C D respectively.

Dr. INTEREST ON CAPITAL *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To A B, Capital A/c, 5% on £5,000 .	250	–	–	19..				
	,, C D, Capital A/c, 5% on £3,000 .	150	–	–	Dec. 31	By Profit & Loss A/c . .			
		400	–	–			400	–	–

Dr. INTEREST ON LOAN *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To A B, Loan A/c, 5% on £1,000 for half-year .	25	–	–	19.. Dec. 31	By Profit & Loss A/c . .	25	–	–

Dr. PARTNER'S SALARY *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Cash (C D) .	500	–	–	19.. Dec. 31	By Profit & Loss A/c . .	500	–	–

Dr. A B—DRAWINGS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Cash . .	400	–	–	19.. Dec. 31	By A B, Cap. A/c	400	–	–

Dr. C D—DRAWINGS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Cash . .	400	–	–	19.. Dec. 31	By C D, Cap. A/c	400	–	–

Dr. A B—LOAN ACCOUNT *Cr.*

							£	s.	d.
					19.. July 1	By Cash . .	1,000	–	–
					Dec. 31	,, Interest on Loan . .	25	–	–

Dr. APPROPRIATION OF PROFIT AND LOSS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To C D, Commission, 3% on £4,000 .	120	–	–	19.. Dec. 31	By Balance b/d, being net profit, subject to CD's commission	4,000	–	–
	,, Balance, net profit divided thus— A B 5/8ths £2,425 C D 3/8ths 1,455	3,880	–	–					
		4,000	–	–			4,000	–	–

Dr. C D—COMMISSION ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To C D, Capital A/c .	120	–	–	19.. Dec. 31	By Profit & Loss A/c .	120	–	–

Dr. A B—CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec 31	To Drawings A/c	400	–	–	19.. Jan. 1	By Cash .	5,000	–	–
"	" Balance c/d .	7,275	–	–	Dec. 31	" Interest on Capital .	250	–	–
						" Profit & Loss A/c, Share of Profit .	2,425	–	–
		7,675	–	–			7,675	–	–
					19.. Dec. 31	By Balance b/d .	7,275	–	–

Dr. C D—CAPITAL ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
19.. Dec. 31	To Drawings A/c	400	–	–	19.. Jan. 1	By Cash .	3,000	–	–
"	" Balance c/d .	4,325	–	–	Dec. 31	" Interest on Capital .	150	–	–
						" Commission .	120	–	–
						" Profit & Loss A/c, Share of Profit .	1,455	–	–
		4,725	–	–			4,725	–	–
					19.. Dec. 31	By Balance b/d	4,325	–	–

At 31st December, 19.., A B's capital stands at £7,275 and C D's capital stands at £4,325. If the partners decided to withdraw the excess of these sums over their original capital, A B's Capital Account would be debited with £2,275, and C D's Capital Account with £1,325 by direct postings from the Cash Book. Alternatively, it might be found inadvisable to make a heavy drain on the cash resources of the partnership by paying out the accumulated profits and interest, in which case the excesses could be transferred from the partners' Capital Accounts to their Loan Accounts, through the medium of the Journal, thus reducing the balance on the Capital Accounts to the amounts originally contributed.

Losses. In the event of a partnership making a loss, it will be necessary, of course, for the loss to be apportioned between the partners in the proportion in which they have agreed to share profits and losses, and each partner's share of the loss will in that case be *debited* to his Capital Account.

A *Sleeping Partner* is one who takes no active part in the business and exercises no control or authority, but who shares in the profits and in the liability of the firm.

A *Limited Partner* is one who by fulfilling the requirements of the Limited Partnership Act, 1907, can limit the extent of his liability for the partnership debts.

Current Accounts. Modern preference seems to be to open Current Accounts for each partner, to take such items as interest on capital, salary, and profit (*credits*), and drawings and loss (*debits*), instead of adopting the method previously explained. The Capital Accounts will then show only actual capital paid into the firm by the partner and actual *capital* withdrawn. The balance of the Current Accounts will, of course, be shown separately in the Balance Sheet and be carried down from period to period.

SUMMARY

1. Partnership is the relation subsisting between persons carrying on a business in common with a view to profit.
2. Capital contributed by partners is carried to the credit of their respective Capital Accounts.
3. Profits and losses are shared in the proportion agreed upon or, in default of agreement, equally. They are credited or debited to the Partners' Capital (or Current) Accounts, as the case may be.
4. Partners' Drawings should be debited to their Drawings (or Current) Accounts.
5. Advances beyond capital are, in default of agreement to the contrary, entitled to interest at 5%, but no interest may be credited on Capital unless so agreed. Such advances must be credited to the Partners' Loan Accounts or Current Accounts.
6. Interest on loans and capital should be debited to appropriate accounts, and subsequently charged against Profit and Loss Accounts before net profits are ascertained.

EXERCISE 46

X, Y, and Z were partners, and on 1st January, 19.., their Capitals in the business were £2,000, £3,000, and £4,000 respectively. X had advanced a loan of £1,000, which stood to his credit at this date. The partners had agreed that—

(1) Interest at 4% was to be allowed on Capital, and at 5% on loans.

(2) Profits were to be shared equally.

(3) Each partner was entitled to a salary of £200 per annum.

(4) Each partner was to be allowed to draw on account of profits and interest a sum not exceeding £250 per annum.

During the ensuing year, each partner duly received his salary. X also drew £200, whilst Y and Z drew £150 each. At 31st December,

19.., the profits, after charging the partners' salaries, but before charging interest on Capital and Loan, were £3,410 for the year.

Show the distribution of the profit between the partners, and set out their Capital Accounts, Salaries Accounts, Drawings Accounts, and X's Loan Account as they would appear in the books of the firm.

EXERCISE 47

A, B, C, and D entered into partnership on 1st July, 19... A, B, and C provided £1,000 of Capital each. D provided £2,000. It was agreed that A should take a salary of £300 a year and one-fifth of the profits, B and C were to take no salaries but one-third of the profits each. D was to take the balance of profit. Interest was to be allowed on the Capitals of A, B, and C at 5%, and on D's Capital at 6%. Each partner was to be allowed to draw £200 per annum in anticipation of profits.

At 31st December, 19.., A had drawn his salary and £150, B and C had drawn £100 each, D had drawn £50. The profits for the half-year were £1,800. Show the distribution of the profit.

EXERCISE 48

J. Wallis and G. Milsom were partners in a cinema business. Wallis contributed £10,000 capital and Milsom £5,000. Milsom was appointed manager at a salary of £1,000 per annum and 2½% commission on gross takings. Wallis's salary was to be £500 per annum. Interest was to be allowed on capital at £5 per cent per annum. The gross takings were £20,000 for the first year. The profit, before charging interest, salaries, and commission for the year, was £2,750. Show the distribution of the net profit and the partners' Capital, Interest, and Commission Accounts, assuming the partners share net profits equally.

On the first day of the second year both partners drew the necessary sum to reduce their capitals to the original figure. For the second year the gross takings were £25,000 and the profit was £2,205 before charging interest, salaries, and commission. Show the partners' Capital Accounts to the close of the second year.

EXERCISE 49

T. Baldwin, C. Donald, and W. Simon were partners in a general business. Each contributed £1,000 of capital and W. Simon advanced a loan of £3,000 at 6% per annum. The Partnership Deed provided—

(1) that Baldwin and Donald should have a salary of £500 each; Simon's salary was to be £400;

(2) that Simon should have a commission of 5% on profits before charging interest on capital but after charging interest on loan and salaries;

(3) Interest was to be allowed on capital at 4%;

(4) Profits were to be shared as follow—Baldwin, ½; Donald, ¼; Simon, ¼.

The profits for the first year of trading amounted to £4,000 before charging any interest, salary, or commission. Show the allocation of profit between the partners and state the total amount which each partner would receive in interest, salary, commission, and profit.

CHAPTER XII

BILLS OF EXCHANGE

We have now to consider a very useful and important class of documents, by the aid of which it is possible to carry on commerce, both national and international, to a much greater extent than would otherwise be the case. These documents are termed "Bills of Exchange," and their use is chiefly governed by an Act of Parliament known as the "Bills of Exchange Act, 1882."

Definition. This Act defines a Bill of Exchange as being "an unconditional order in writing addressed by one person to another, signed by the person giving it requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person or to bearer."

This is an extremely important definition and one which the student should commit to memory, because unless its every requirement is fulfilled by any particular document, that document is not a Bill of Exchange, and the various provisions of the Bills of Exchange Act do not apply to it.

Bills are either *Inland Bills* or *Foreign Bills.* An inland bill is one drawn upon a person resident in the same country as the drawer. A foreign bill is one drawn by a person resident in one country upon a person resident in another country. Inland bills are, as a rule, made payable at a certain period "after date," whilst foreign bills are made payable at a period "after sight."

In the United Kingdom, all bills are liable to stamp duty. Those payable at sight, or on demand, pay a duty of twopence, whatever the amount. The same duty is payable upon those drawn and payable at not more than three days after date or sight. All other bills, and all Promissory Notes, are subject to an *ad valorem* duty, that is, a duty varying with the amount of the bill.

Bills drawn in the United Kingdom, except those payable on demand or at sight, or on presentation, must be drawn upon paper with the stamp of proper value embossed

thereupon. In the exceptional cases just mentioned, adhesive stamps may be used. The rates are as follows—

					s.	d.
Bills not exceeding £10 in amount						2
Exceeding	£10, and not exceeding			£25		3
,,	£25,	,,	,,	£50		6
,,	£50,	,,	,,	£75		9
,,	£75,	,,	,,	£100	1	–
,,	£100, for each £100 and for any additional fractional part of £100				1	–

Bills drawn out of, but made payable in, the United Kingdom are liable to the same duty as above. This is discharged by a special form of adhesive stamp called foreign bill stamp. The person first dealing with the bill in the United Kingdom is responsible for the duty. To provide for bills drawn out of, *and* payable out of, but negotiated or otherwise dealt with in, the United Kingdom, a special rate of duty is imposed. If the amount is between £50 and £100, the duty is 6d. Over £100, for each complete £100, and for every fractional part of £100, 6d. It must clearly be understood that this lower duty does not in any case apply to bills drawn in the United Kingdom.

Form of Bill. The following is the form of an ordinary Inland Bill—

MANCHESTER.
9th March, 19...

£250 : – : –

Stamp.
3s.

Three months after date, pay to Messrs. Black & Green or order the sum of Two hundred and fifty pounds for value received.

WILLIAM THOMPSON.

MR. HENRY ROBINSON,
London.

Let us now see how this document complies with the definition given by the Bills of Exchange Act. Clearly it fulfils every requirement, for it is—

(1) An unconditional order, i.e. an instruction without conditions attached;

(2) in writing;

(3) addressed by William Thompson;
(4) to Henry Robinson;
(5) requiring Robinson to pay;
(6) not on demand, but certainly at a determinable future time (i.e. three months after the date of the bill, which is 9th March); the date can, therefore, easily be determined;
(7) a sum certain in money (i.e. £250);
(8) to Black & Green, or to the order of Black & Green.

Parties to a Bill. Now, there are always three parties to every Bill of Exchange. They are—

1. The Drawer, i.e. the person who " draws " the bill, or, in other words, issues the order to another to pay the specified sum of money.
2. The Drawee, i.e. the person on whom it is drawn (or to whom it is addressed).
3. The Payee, i.e. the person to whom it is made payable.

In the example given above, William Thompson is the **drawer,** Henry Robinson is the **drawee,** and the firm of Black & Green are the **payees.**

Acceptance. Now, it will be clear that, before any drawer can " draw a bill " on another person instructing him to pay a sum of money, the drawee must either be indebted to the drawer for that sum or must have agreed to pay the amount for some consideration. Hence, we find the words " for value received " on every Bill of Exchange. But how is the payee to know that the drawee will pay the bill when it falls due for payment? In order to ascertain this, it is necessary for the bill to be " presented to the drawee for *acceptance*." If the drawee agrees to pay the sum named in the bill he signifies his acceptance of the liability by writing a statement to that effect across the face of the bill, indicating the place of payment, and adding his signature.

The form of acceptance is as follows—

Accepted March 10th, 19..
Payable at Lloyds Bank,
London.
(Sd.) Henry Robinson.

Having thus " accepted the bill," the drawee ceases to be known by that term and is now called the " **Acceptor.**"

If the drawee is not liable for the bill, or, if for any other

reason he refuses to accept the bill, it will become "dishonoured" for non-acceptance. The meaning of the term "dishonoured" will be explained later.

Qualified Acceptance. The drawee may, if he wishes, give a qualified acceptance (i.e. he may accept it for only a part of the sum named upon it, or may accept it subject to the term or period allowed for payment being extended, or subject to some other qualification). In such a case, the payee or drawer may refuse the qualified acceptance and treat the bill as if it had not been accepted at all.

The Complete Bill. Assuming, however, that the bill given in our example has been duly accepted by Henry Robinson, it will now present the following appearance—

MANCHESTER

9th March, 19...

£250 : – : –

Stamp 1s

Three months after date pay to Messrs. Black & Green or order the sum of Two hundred and fifty pounds for value received.

Accepted March 10th, 19..
Payable at Lloyds Bank, London.
Henry Robinson

WILLIAM THOMPSON.

MR. HENRY ROBINSON,
London.

Negotiability. Bills of Exchange are included in a class of documents which are known as "Negotiable Instruments."

Negotiable Instruments are documents of title the ownership in which can be transferred either by delivery (i.e. by handing the document to the person to whom the ownership in it is to be transferred), or by indorsement and delivery.

Indorsement. Now, the ownership of a Bill of Exchange naturally vests in the person who is entitled to receive payment of the sum mentioned in it (i.e. the payee), and therefore he is the person who, in the first instance, has the right to transfer or "negotiate" the bill.

It will be advisable, at this point, to explain how the payee becomes entitled to, and obtains possession of, the bill.

One of the chief advantages of Bills of Exchange is that they enable the settlement of debts to be effected between traders without the transfer of cash. Thus, in the example

cited above, Henry Robinson owes William Thompson £250. Similarly, William Thompson owes Black & Green £250. It will, therefore, clearly be an advantage, instead of Robinson paying Thompson the debt in cash or by cheque, and of Thompson paying Black & Green, if Thompson arranges for Robinson to pay the £250 direct to Black & Green, for the two debts are thereby settled by a single payment. That is the reason, therefore, why Thompson draws the bill on Robinson and makes it payable to Black & Green. Having drawn the bill, Thompson may send it first to Robinson for acceptance, and, upon its return duly accepted, send it to Black & Green in settlement of the debt he owes to them. Or he may send it in the first instance to Black & Green direct, leaving them (or subsequent holders) to present it to Robinson for acceptance. It is not essential that the bill should be presented for acceptance immediately it is drawn; but it must be so presented before its **due date** (i.e. three months after 9th March, 19..), otherwise known as the "**date of maturity**," in order to maintain the rights of the parties to it.

Now, Black & Green, having come into the possession of the bill, may not desire to wait until the due date before they derive any benefit from it. They may, therefore, decide to negotiate it in payment of other debts due by them. They, therefore, indorse the bill (i.e. write across the back of the bill the firm's signature) and deliver it to the particular creditor whom they desire to pay.

The effect of this proceeding is to transfer the bill (i.e. the ownership, or right to be paid) to the creditor of Black & Green. The bill has been negotiated.

Bearer Bill. If the bill had been made payable to Black & Green "or bearer," indorsement would have been unnecessary. The bill would be known as a "bearer bill," and simple delivery of it would be sufficient to transfer the title in it to the third party.

Methods of Indorsement. There are various classes of indorsement which may be referred to here briefly. They are—

1. *Indorsement in Blank.* i.e. the payee simply writes his name across the back of the bill, and the effect is to convert the bill into a bearer bill, which may then be transferred between several subsequent holders without further indorsement

2. *Special Indorsement.* In this case, the payee writes above his indorsement an instruction to pay to a specified person; e.g. " Pay Blue & Bright or order. (Signed) Black & Green." The effect of this indorsement is to necessitate the bill being indorsed by the new payee, or indorsee, as he is termed, before the bill can be again negotiated.

3. *Restrictive Indorsement.* This indorsement makes the bill payable to a specific person " only "; e.g. " Pay Blue & Bright only. (Signed) Black & Green." The effect is to terminate the negotiability of the bill. It cannot thereafter be transferred to any other person. Only the indorsee is entitled to receive payment.

4. *Indorsements Subject to other Conditions.* E.g. by the addition of the words *sans recours* (without recourse), the indorser frees himself from liability to pay the bill in the event of the acceptor, drawer, or other indorsers of the bill failing to do so.

Presentation for Payment: Days of Grace. When the date of maturity arrives, the bill must be presented to the acceptor, or his agent (usually a banker) at the place named in the acceptance, for payment.

The due date of the bill is calculated according to its " tenor." When drawn a certain number of months " after date," the term " months " is to be regarded as calendar months. Three additional days, known as " days of grace," are to be added to the term of the bill, except in the case of bills drawn " on demand " or " at sight." Thus, to determine the due date of the bill given in the example above, we should have to calculate as follows—

Date of the bill . . .	9th March
Add three calendar months .	9th June
Add three days of grace .	12th ,,

The date of maturity, or due date, is, therefore, 12th June.

Dishonoured Bills. Bills may be dishonoured in two ways, viz.—

1. Dishonour for non-acceptance.
2. Dishonour for non-payment.

The effect of the dishonouring of a bill is that the holder of the bill may at once have recourse to all previous indorsers and

the payee, i.e. he may look to all or any of them to pay the sum which the acceptor or drawer has refused to pay or to accept liability to pay.

If, when a bill is presented for acceptance, acceptance is refused, the holder may at once treat the bill as dishonoured, and look to the other parties to the bill for payment.

If, when a bill, after being accepted, is presented for payment on the due date and is not paid or met, then the holder has a right of recourse against the acceptor, drawer, and successive indorsers of the bill.

But, in order to maintain these rights, it is essential that he should immediately "note" the bill and give notice forthwith, to all the persons whom he desires to hold liable on it that the bill has been dishonoured.

Noting and Protesting. "Noting a bill" refers to the note which is written on a dishonoured bill by a Notary Public, to the effect that the bill has been presented for acceptance or payment and has not been accepted or paid.

"Protesting a bill" refers to a formal certificate based on the note referred to above given by a Notary, if one is available; or, otherwise, by a respectable householder in the presence of two witnesses, that acceptance or payment of the bill has been refused. Protest is only necessary in the case of foreign bills.

Failure to note an inland bill will not necessarily invalidate the rights of the holder, but failure to acquaint the persons whom he desires to make liable on the bill, within a reasonable time (i.e. within the course of the day following the due date, subject to certain qualifications) will effectively relieve those parties from liability.

Retiring a Bill. The acceptor may, with the consent of the holder of a bill, pay the bill before its due date, usually in consideration of a discount or rebate from the amount of the bill. This is termed "retiring the bill."

Discounting a Bill. The holder of a bill may not desire to negotiate it, nor to await the due date for payment; but may wish to convert it into cash at once. To accomplish this, he takes it to his bankers, or to a Discount House, who, if satisfied as to the credit of the drawer, acceptor, and indorsers of the bill, will "discount" the bill (i.e. they will calculate the interest on the bill for the period still to run upon it and

advance to the holder the amount of the bill less the interest or discount so calculated).

Methods of Collection. On the other hand, the holder may not wish to convert the bill into ready cash at once, but may be willing to await the due date and so save the expense of discounting it. In such a case, he may hold the bill and duly present it for payment at the due date. It is customary, however, to "collect the proceeds" through the medium of the banks. The holder, in such a case, deposits the bill with his bankers, who will, when the due date arrives, present it to the acceptor, or, as is usual, to the acceptor's banker, if named upon the bill, and when it is met, will credit the holder with the proceeds.

Advising Payment. It is important that acceptors should note the due date of accepted bills, in order that they may notify their bankers of the fact that the bills are due for payment and request them to meet the bills. It is necessary that this should be done some days in advance of the due date so that the bankers may make the necessary arrangements for meeting the bills. Failure to notify the bankers of bills falling due will result in their being dishonoured, for the banker will not meet the bills unless he has been advised of them. The result of dishonouring a bill is serious, for it reflects upon the credit of the acceptor. An acceptor who has once failed to meet a bill will find great difficulty in obtaining credit, for the banks may refuse to discount his acceptances in future, fearing that he may again fail to meet his obligations, and traders will refuse to take his accepted bills for the simple reason that they cannot get them discounted. The student will, therefore, clearly realize the great importance of advising payment of bills to the bankers in ample time to ensure that the bills are duly met.

Foreign Bills. Hitherto we have dealt only with inland bills (i.e. bills both drawn and payable within the British Isles, or drawn in the British Isles upon some person resident therein).

All other Bills of Exchange are foreign bills, and are usually drawn in sets of two or three, each being identical with the others, except the words "first," "second," and "third," which, of course, are interchanged. The form of a foreign bill, drawn in a set of two, would be as shown on next page.

Form of a Foreign Bill.

EXCHANGE FOR £500 : – : –

January 1*st*, 19...

5/-
Stamp

At *Four months' sight* pay this *first* of Exchange *second* of even tenor and date being unpaid to the Order of *Messrs. Dyer Wallace & Co.* the sum of *Five hundred pounds sterling.*
Value *in account* which place to Account.
To *Messrs Watkin Bruce & Co.,*
Bombay.

Harriss Brothers.

Form of a Foreign Bill (second of Exchange).

EXCHANGE FOR £500 : – : –

LONDON, *January* 1*st*, 19..

At *Four months' sight* pay this *second* of Exchange *first* of even tenor and date being unpaid to the Order of *Messrs. Dyer Wallace & Co.* the sum of *Five hundred pounds sterling.*
Value *in account* which place to Account.
To *Messrs. Watkin Bruce & Co.,*
Bombay.

Harriss Brothers.

The object of drawing bills in sets is, by dispatching them by separate mails, to ensure that at least one copy will safely reach its destination.

One only, the first to reach the drawee, would be accepted, the other, unless it is indorsed, being of no further value.

As the bill here given is drawn in London upon a person in Bombay, and will be payable there, to forward it to Bombay for acceptance, to have it returned to London completed, and then again to send it to Bombay for payment, would involve a very considerable loss of time, and in the end the amount it represents would have to be transmitted from Bombay to the holder of the bill. To avoid this, the bill will, in the first place (as in our example), either be made payable to some

one in India, or will, if payable to the drawer, be indorsed by him to some such person.

If the drawer has no use for his money in India, having no payments to make there, he will sell the bill at the current rate of exchange to anyone who is willing to purchase it, receiving cash in return. In fixing the rates of exchange with foreign countries, the term bills have to run is taken into consideration, so that the item of discount does not appear; otherwise the operation is very much the same as discounting an inland bill.

Foreign bills are usually drawn as being payable at so many days (or months) after sight. In these cases, the period is reckoned from the day on which it is presented to the drawee for acceptance (i.e. when it comes to his "sight"). The usual three days of grace are allowed.

Usance. Certain countries have a customary time at which bills are made payable and this is termed the "Usance" of the country.

Allonge. When bills are negotiated several times, the space on the back of the bills is occasionally insufficient to contain all the indorsements. In such cases, it is necessary to continue the indorsements on an "allonge," which is a slip of paper, the same width as the bill, pasted on to the end of the original bill, so that the indorsements can be continued thereon.

The first indorsement after the addition of the allonge should commence on the bill and be completed on the allonge, so as to prevent any misdealings with the bill by substituting another allonge.

Promissory Notes. A Promissory Note is essentially the same as a bill, differing only in form. A bill originates with the person who is entitled to receive the money, while a Promissory Note originates with the person who is to pay it. So far as the book-keeping is concerned, both documents are treated in identically the same way.

The following is the form of a Promissory Note—

LONDON.
3rd January, 19...

Stamp.
1/-

On Demand I promise to pay *Robert Crediton* the sum of *Eighty-five pounds seven shillings and ninepence* value received.

(Signed) HENRY OWEN.

£85 7 9

It is important to note that, whilst Promissory Notes are of the same nature as Bills of Exchange, and are recorded in the books of a business in the same manner, they differ from them in several respects. For instance, Promissory Notes are not "presented for acceptance," nor are they "accepted." They are not drawn in "sets." A foreign "note" need not be protested on dishonour, whilst a dishonoured foreign "bill" must be. There is also a difference in the stamp duty payable. A Bill of Exchange "on demand" bears a two-penny stamp, but a Promissory Note, whether "on demand" or otherwise, must bear an *ad valorem* stamp calculated in accordance with the scale shown on page 103.

Cheque. A cheque is, according to the statutory definition, a "Bill of Exchange drawn on a banker payable on demand," and, consequently, requires only a two-penny stamp.

Accommodation Bills. These bills, which are sometimes known as "Kites," are a means of raising money on the joint credit of two or more persons for the benefit of one or more of them. They are bills drawn by one party on another for which no consideration has been received. The bill is duly accepted and discounted, and the proceeds paid over to the party or parties for whose accommodation the bill was drawn. When the due date arrives, the bill must be met by the accommodated party providing the necessary funds wherewith to meet it. The effect is that the accommodated party has, by reason of the joint security offered by the drawer and drawee respectively, been able to obtain an advance of money for the period of the bill in consideration of paying the discounting charges, which are in the nature of interest on the amount received from the discounting of the bill.

Documentary Bills. The term is applied to Bills of Exchange which are accompanied by "documents of title" (i.e. documents proving the ownership of property).

Documentary Bills are, in the majority of cases, foreign Bills of Exchange to which are attached the Bills of Lading (i.e. the master's receipt for goods shipped), the invoice of the goods, the policy of marine insurance covering the goods whilst in transit at sea, and letter of hypothecation.

The documents attached provide security to the holder of the bill, for by means of them he can obtain possession of the goods, and thus indemnify himself against loss in the

event of the bill being dishonoured by non-acceptance or non-payment.

SUMMARY

1. A Bill of Exchange is "an unconditional order in writing addressed by one person to another signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money to or to the order of a specified person or to bearer."

2. The drawer is the person who "draws" or issues the order.

3. The drawee is the person to whom it is addressed.

4. The payee is the person to whom it is payable.

5. "Accepting a bill" is the act of acknowledging the liability under the bill by the drawee writing to that effect on the face of the bill and attaching his signature. Bills must be presented for acceptance before they are due.

6. Bills of Exchange are negotiated by indorsement and delivery, or, if bearer bills, by delivery only.

7. Indorsement is the signing, on the back of the bill, of the name of the person who is entitled to receive payment.

8. Indorsement may be—

(*a*) in blank, which converts the bill to a bearer bill;
(*b*) special, which makes the bill payable to a specified person;
(*c*) restrictive, which limits the negotiability of the bill;
(*d*) conditional.

9. "Days of grace" are the three days which are added to the term of the bill in reckoning the date of maturity or due date of the bill.

10. Bills must be presented for payment upon their due dates.

11. Bills may be dishonoured for non-payment or non-acceptance. The holder, in order to preserve his rights of recourse against previous indorsers and the acceptor, must at once give notice of any dishonour to them.

12. Retiring a bill is the act of paying a bill by the acceptor with the consent of the holder before its due date, usually in consideration of a rebate.

13. Discounting a bill is the act of converting the bill into cash by selling it to a discounter for a sum less than its value at maturity, the difference between the two sums being the "discount."

14. Foreign bills are usually drawn in sets of two or three to obviate the risk of loss in transit.

15. An allonge is a strip of paper pasted on to a bill when there is insufficient room on the back of the bill for further indorsements.

16. Promissory Notes are promises to pay sums of money, signed by the promisor.

17. Cheques are Bills of Exchange drawn on bankers payable on demand.

18. Accommodation Bills are Bills of Exchange for which no consideration has been given. They are means of raising money on the joint credit of the parties to them for the benefit of one or more of them.

19. Documentary Bills are Bills of Exchange to which the documents of title to goods are attached by way of security if the bill is dishonoured

CHAPTER XIII

BILLS BOOKS

For the purpose of recording in the books of account transactions in Bills of Exchange, it is customary to keep two tabulated books, known respectively as the—

(*a*) Bills Payable Book; and
(*b*) Bills Receivable Book.

Bills Payable are those which a trader has to **pay** or meet when they fall due, he having previously accepted them.

Bills Receivable are those the proceeds of which he is entitled to **receive** when they are met by the acceptor. In such cases, the trader either may be the payee of the bill (i.e. the person to whom it is made payable), or he may have had the bill "indorsed over" to him by another trader, in which case he is known as the indorsee.

When a trader receives from a creditor a bill which the latter has drawn upon him, he duly accepts it in the usual form and returns it to the person presenting it for acceptance. The effect of this is that, whilst his indebtedness remains the same, its nature may be said to have been changed. Previously, he owed the debt to his creditor and the amount thereof stood to the credit of that person in the Ledger. By accepting the bill, he has discharged his debt to the creditor, but has replaced it by an indebtedness on the Bill Payable, which he will be required to meet at its due date, and may possibly have to pay, not to the creditor, but to some other person to whom it has been transferred.

It is therefore necessary to record the effect of this transaction in the books. The creditor must be debited with the amount of the bill which he has *received*, and an account must be opened for Bills Payable, which must be credited with the amount for which the trader has undertaken to be liable. The debt is thereby transferred from the creditor's account to the Bills Payable Account.

This might be done through the medium of the Journal, but, by adapting the Bills Payable Book, the transaction can be posted therefrom. In the same way as the double

BILLS PAYABLE BOOK

No. of Bill	Date of Accept-ance	In whose Favour	By whom Drawn	Where Payable	Date of Bill	Term	Led. Fo.	Amount £	s.	d.	Due date Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Remarks
1	Jan. 4	D. Smith	A. Jones	Cox's, London	Jan. 2	3 months	6	250	–	–				5									Met
2	12	E. English	B. Bientot	Do.	Dec 16	40 days	12	100	–	–		24											Met
								350	–	–													
								I.L.	60														

entry is attained in the posting of the Sales Book, the double entry is recorded from the Bills Payable Book by posting the individual items to the debit of the respective drawers' accounts, and by posting the *total* of the bills periodically to the credit of Bills Payable Account.

Example. Enter the following Bills Payable in their appropriate book, and post the entries in the Ledger—

1. Bill drawn by A. Jones for £250 in favour of D. Smith, accepted 4th January in settlement of Jones' account. Term of the bill, three months. Date of bill, 2nd January.

2. Bill at forty days' sight drawn by B. Bientot, Paris, in favour of E. English, London, for £100, accepted 12th January in settlement of debt due to B. Bientot. Date of bill, 16th December.

Both bills were accepted payable at Cox's Bank, London.

LEDGER

Dr. A. JONES *Cr.*

			£	s.	d.				£	s.	d.
19.. Jan. 4	To Bills Payable	B.B. 6	250	–	–	19.. Jan. 1	By Balance .	✓	250	–	–

Dr. B. BIENTOT *Cr.*

			£	s.	d.				£	s.	d.
19.. Jan. 12	To Bills Payable	B.B. 6	100	–	–	19.. Jan. 10	By Goods .	✓	100	–	–

Dr. BILLS PAYABLE *Cr.*

									£	s.	d.
						19.. Jan. 31	By Sundries .	B.B. 6	350	–	–

In due course, the time arrives for these bills to be met, and the trader duly notifies his bankers that they are falling due and requests them to be paid. The bankers meet them when presented for payment, and when next the trader obtains his Pass Book from the bank, he finds that the bills have been debited to his account.

On advising the payment of the bills, he makes entries in the bank column of his Cash Book as follow—

Dr. CASH BOOK *Cr.*

			Dis.	Cash	Bank					Dis.	Cash	Bank £	s.	d.
						19.. Feb. 24	By Bills Payable	I.L.				100	–	–
						Apr. 7	By do.	I.L.				250	–	–

Since these payments are made in discharge of the liability standing on the Bills Payable Account, they are posted to the debit of that account and have the effect of balancing and closing off the account thus—

Dr. BILLS PAYABLE *Cr.*

19..			£	s.	d.	19..			£	s.	d.
Feb. 24	To Cash	C.B.	100	–	–	Jan. 31	By Sundries	B.B. 6	350	–	–
Apr. 7	,, ,,	C.B.	250	–	–						
			350	–	–				350	–	–

In the case of Bills Receivable, the trader must credit the person from whom he receives the bill. This person may be the drawee (or acceptor, after the bill has been accepted) upon whom the trader has drawn for the amount of the debt, or it may be the debtor who has negotiated a bill payable by some other person, and by indorsement and delivery, has transferred to the trader the right to receive payment of the amount of the bill. The corresponding debit entry is made in a Bills Receivable Account, thus transferring the debt from the debtor's account to the Bills Receivable Account.

In due course, the trader, through his bank, presents the bill for payment to the acceptor, and when payment is made the bankers credit the trader's account with the proceeds.

Example. Record the following transactions in Bills Receivable in the books of A. Trader.

1. *February 4th*, 19... Bill Receivable received from W. Johnson, drawn by H. Thomas, and accepted by W. Brown, payable at the Northern Bank, Liverpool, three months after date, which is 10th January, 19.., for £700 in settlement of account.

2. *March 2nd*, 19.. Drew Bill at four months after date, 12th January, 19.., for £150 on T. Black, who duly accepted and returned it payable at Lloyds Bank, London, for goods delivered 9th January, 19...

Both Bills were duly met.

Dr. W. JOHNSON *Cr.*

19..			£	s.	d.	19..		B.R.	£	s.	d.
Jan. 10	To Balance	✓	700	–	–	Jan. 10	By Bill Receivable	2	700	–	–

BILLS RECEIVABLE BOOK

No. of Bill	Date Received	From whom Received	By whom Drawn	Acceptor	Where Payable	Date of Bill	Term	Led. Fo	Amount £	s	d.	Due Date Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Remarks
	19..					19..																		
1	Feb. 4	W. Johnson	H. Thomas	W. Brown	Northern Bank, Liverpool	Jan 10	3 months	17	700	–	–				13									Met, 13th Apr., 19..
2	Mar. 2	T. Black	Self	T. Black	Lloyds Bank, London	12	4 months	24	150	–	–					15								Met, 15th May, 19..
									850	–	–													
									I.L	75														

T. BLACK

Dr.											*Cr.*
19..		S.B.	£	s.	d.	19..		B.R.	£	s.	d.
Jan. 9	To Goods . .	17	150	–	–	Jan. 12	By Bill Receivable . .	2	150	–	–

BILLS RECEIVABLE

Dr.											*Cr.*
19..		B.R.	£	s.	d.	19..		C.B.	£	s.	d.
Jan. 31	To Sundries .	2	850	–	–	Apr. 13	By Cash . .	7	700	–	–
						May 15	By Cash . .	C.B. 9	150	–	–
			850	–	–				850	–	–

CASH BOOK

Dr.			Dis.	Cash	Bank						Dis.	Cash	Bank *Cr.*
					£	s.	d.						
19... Apr. 13	To Bills Receivable	B.R. 17			700	–	–						
May 15	" do.	17			150	–	–						
					850	–	–						

Dishonoured Bills. When a Bill Receivable is dishonoured for non-payment or non-acceptance, it becomes necessary to reverse the original entries made when the receipt of the bill was recorded. The default of the acceptor revives the right of the holder of the bill to recover the amount from the person from whom he received the bill originally, who may be the acceptor or some subsequent indorser of it. It therefore becomes necessary to re-debit the amount to the person to whom it was originally credited, and to credit Bills Receivable Account, after which the debtor's account will show the original debt once more.

It is necessary for this purpose to bring into use the Journal, for this is one of those exceptional transactions which cannot conveniently be passed through any other book.

Example. A Bill Receivable for £170 received from H. Robinson, due 14th April, was duly presented for payment and not met. Record the Journal entry necessary to explain the dishonour of the bill.

JOURNAL

			£	s.	d.	£	s.	d.
19..								
Apr. 14	H. Robinson . . *Dr.*	17	170	–	–			
	To Bills Receivable A/c.	34				170	–	–
	for bill due April 14th not met							

Noting Charges. In connection with the dishonour of the bill, it may have been advisable to note the bill, in which event, certain notarial charges would have been incurred. These charges may legitimately be debited to the debtor's account, and this would be effected by a posting from the credit side of the Cash Book, where the payment of the charges would be entered, to the debit of the debtor's account. Supposing the charges in Robinson's case for noting the bill were 2s. 6d., Robinson's account would appear as follows after finally posting the record of the dishonoured bill.

Dr. HENRY ROBINSON *Cr.*

		S.D.B	£	s.	d.			B.R.	£	s.	d.
19.. Jan. 11	To Goods .	80	170	–	–	19.. Jan. 11	By Bill Receivable . .	2	170	–	–
19.. Apr. 14	To Bill Receivable dishonoured .	J. 1	170	–	–						
"	To Cash, Noting Charges .	C.B 18		2	6						
			170	2	6						

Renewed Bills. In the event of an acceptor being unable to meet the bill when it becomes due, he may be able to make arrangements with the holder to renew the bill for a consideration. The consideration usually takes the form of a payment for the expenses incurred and for interest on the amount of the bill for the period of the renewal. This payment may be made in cash, in which case another bill for the same amount as the original one is duly drawn and accepted, or the expenses and interest may be included in the amount of the new bill.

In such a case, it is necessary to pass through the Journal an entry recording the surrender of the old bill and charging the interest to the debtor, and to pass the new bill, for the amount agreed upon, through the Bills Receivable Book in the ordinary course.

Thus, assuming A B fails to meet a bill for £600 on which noting charges of 2s. 6d. have been incurred, and in respect of which the holder has agreed to accept a new bill at four months for £610 2s. 6d., being the amount of the original bill

plus noting expenses, and interest at 5 per cent on the old bill for the period of the new bill, the entries in the Journal and in A B's account would be as follow—

JOURNAL

			£	s.	d.	£	s.	d.
	A B . . . . *Dr.*	18	610	–	–			
	To Sundries—							
	Bills Receivable . .	34				600	–	–
	Interest Account . .	62				10	–	–
	for surrender of old bill and Interest at 5% on £600 for 4 months							

Dr. A B *Cr.*

19..		S.D.B.	£	s.	d.	19..		B.R.	£	s.	d.
Jan.	To Goods .	24	600	–	–	Jan.	By Bill Receivable . .	3	600	–	–
		J.						B.R.			
May	To Sundries .	1	610	–	–	May	By Bill Receivable . .	4	610	2	6
	,, Cash, Noting Charges .	18		2	6						
			610	2	6				610	2	6

Discounting Bills. As explained in the previous chapter, the holder of a bill may " discount " the bill by taking it to his banker, who will deduct interest upon the amount of the bill for the unmatured period of the bill and pay over to, or credit the account of, the holder with the balance.

When the proceeds of a bill are thus realized before maturity, it becomes necessary to credit the Bills Receivable Account with the proceeds of the bill plus the discount deducted, and to debit the latter to " Discounting Charges " Account. The proceeds of the bill will be credited by a posting from the Cash Book, where they will have been debited on receipt. Sometimes the discount is put into the discount column of the Cash Book and credited to the Bills Receivable Account along with the proceeds. But it is inadvisable to confuse this discount, which is really in the nature of interest, with the ordinary cash discounts. It is preferable to make this transaction the subject of a Journal entry, thus—

Example. Bill Receivable No. 10, £200 discounted 4th

Payable Account will be closed off by debiting it with the £600 paid to meet the bill when it falls due to be paid.

SUMMARY

1. Bills Payable are entered in the Bills Payable Book. They are debited to the drawer and credited to Bills Payable Account.
2. Bills Receivable are recorded in the Bills Receivable Book. They are credited to the person on whose account they are received, and debited to Bills Receivable Account.
3. Cash paid when a Bill Payable is met is debited to Bills Payable Account. Cash received as the proceeds of Bills Receivable is credited to Bills Receivable Account.
4. Dishonoured Bills Receivable must be debited to the person on whose account received, together with charges incurred on dishonour; and Bills Receivable Account credited with the amount of the bill.
5. When Bills Receivable are discounted, the cash received, plus the discount, is credited to Bills Receivable Account, and Discount Account is debited with the discount charged.
6. When Bills Payable are retired, the cash paid, plus the rebate or discount, must be debited to Bills Payable Account.

EXERCISE 50

Lancashire and Cheshire Union

On the 1st February, 19.., Messrs. Rhodes & Co., Stockport, drew a Bill of Exchange upon John Ellis, of Liverpool, for £325 at four months' date, which was duly accepted payable at the Manchester & County Bank, Liverpool; after acceptance, the bill was indorsed to Albert Blackston, Preston.

Draw the Bill of Exchange, showing acceptance, indorsement, and stamp duty.

EXERCISE 51

Lancashire and Cheshire Union

Referring to the previous question, supposing the bill at due date was returned dishonoured, and the indorsee arranges with the acceptor to accept a new bill of exchange dated the due date of the one dishonoured at four months, plus interest at 5% per annum for the period, and 2s. 6d. expenses.

Make the Journal entries in the books of the acceptor.

EXERCISE 52

Bills Receivable

Enter the following in the Bills Receivable Book and post to the Ledger—

19..
Apr. 10. Received from B. Brown, bill for £250 dated 1st April, accepted by Smith & Co. and drawn by W. Tong, payable three months after date.

19..
Apr. 14. Received from J. Williams, bill for £120 dated 12th April, 19.., payable four months after date in favour of self.
16. Received from S. Stone, bill for £90 dated 14th April, 19.., payable two months after date in favour of self.

The following are the subsequent dealings with the above-mentioned bills. Make the necessary records in the Cash Book and Ledger to record the transactions—

Apr. 20. Discounted J. Williams's bill for £119
June 16. S. Stone's bill was presented for payment and dishonoured. Noting charges amounting to 5s. were paid and charged to his account.
20. S. Stone gave a new bill at three months to replace the dishonoured bill. The new bill includes the noting charges and interest at 5% for the term of the bill.
Record this transaction in Bills Receivable Book and Ledger.
July 4. Bill received from B. Brown was duly met on presentation.

EXERCISE 53

Bills Payable

19..
Jan. 4. Accepted bill for £100 drawn by Wm. Johnson in favour of M. Marks, payable three months after 2nd January, 19...
7. Accepted R. Firth's draft at one month for £150.
12. Accepted D. Davy's draft for £400 at two months.

Record the entries relating to these bills in the Bills Payable Book and Ledger.

The bills were subsequently dealt with as follows—

19..
Feb. 9. Advised Bank of Firth's draft, which was duly met.
12. Retired D. Davy's draft by cheque, receiving rebate of £1 5s.
Apr. 7. Owing to temporary shortage of funds, was compelled to dishonour Johnson's draft for £100.
8. Paid Johnson £50 on account by cheque and accepted draft for £52 10s. at three months to cover interest, noting charges, and balance of account.

Enter these transactions in the appropriate books.

EXERCISE 54

Accommodation Bills

A B agreed to accept a bill drawn on 1st July by C D at three months for £400, and to share the proceeds. The bill was discounted on 3rd July by C D for £396, half of which he paid to A B by cheque. On the due date of the bill he remitted to A B £200 to enable him to meet the bill, which in due course was met. Show the records of these transactions in the books of A B.

EXERCISE 55

X Y and K L agreed that, for mutual accommodation, X Y should accept a bill drawn by K L for £500 at 3 months, and K L should accept a bill for £400 drawn by X Y at 4 months. They were to share the proceeds and costs equally. K L discounted X Y's acceptance for £495, and X Y discounted K L's acceptance for £390 and received from K L £52 10s., part proceeds of the bill the latter had discounted. On the due date of his acceptance K L remitted £250 to X Y and the bill was met. But when K L's acceptance fell due, X Y failed to remit his share, and K L had to meet the bill himself. Show the record of these transactions in K L's Ledger.

CHAPTER XIV

RESERVES

For the purpose of this work, Reserves may broadly be divided into two classes, viz.—

1. Those created to meet some anticipated loss (or, more rarely, to provide for some prospective profit), which are known as *Reserves* or *Provisions.*

2. Those created to provide additional working capital, or to increase the financial stability of a business, which are known as *Reserve Funds* or *Reserve Accounts.*

These two classes of Reserves differ materially both in their natures and in their objects, and it is important that the student should fully appreciate the distinction between them.

It is intended at this point to deal only with the first-named class. The latter will be treated in a subsequent chapter.

Reserves (or **Provisions**). A *Reserve* (or *Provision*) is a sum *charged against gross profits* and set aside to meet some future known but unascertained loss. The term is also applied, in a few cases, to sums credited to Profit and Loss Account before net profits are ascertained, in order to anticipate contingent profits. The most common instances of the creation of such Reserves are as follow—

1. *Reserve for Bad and Doubtful Debts.* This has already been dealt with in Chapter XI.

2. *Reserves for Discount.* The need for this Reserve arises when the debts which are outstanding at the close of the period of trading will be subject to a cash discount for prompt payment. These allowances are in the nature of losses and must be provided for by making a reserve in respect of them.

This is done (*a*) by taking a certain percentage of the whole of the debts, or (*b*) by ascertaining the discount likely to be allowed on each specific debt, and reserving for the total.

In this case it is *not* customary to open a Reserve for Discounts Account; but to debit the Reserve to the Discount

Account and carry it down as a credit balance. The amount of the Reserve is thus incorporated with the charge for Discounts Allowed in the Profit and Loss Account.

Example—

Dr. DISCOUNTS ALLOWED *Cr.*

		C.B.	£				£
19.. Dec. 31	To Cash Discounts .	9	498	19.. Dec. 31	By Profit and Loss Account .		548
"	,, Estimated reserve for Discounts on debtors 2½% on £2,000 . .	✓	50				
			£548				£548
				19.. Dec. 31	By Balance b/d .	✓	50

The credit balance brought down on this account represents the Reserve, which, like the Reserve for Doubtful Debts, must be shown as a deduction from the debtors in the Balance Sheet.

A similar Reserve may be made in respect of discounts *to be received* on payment of the creditors outstanding. To effect this, entries exactly the reverse of the foregoing must be made in the "*Discounts Received Account.*"

NOTE. Where a percentage has to be reserved for discounts in addition to a Reserve for Doubtful Debts, the latter Reserve must *first* be deducted from the total debtors, and the Discount Reserve calculated upon the balance remaining. Obviously, discounts cannot be allowed on debts which are sufficiently overdue to warrant them being regarded as "doubtful."

3. *Reserves for Accruing Assets and Liabilities.* These Reserves relate to the apportioning of expenses such as rent, rates, taxes, wages, interest, and other periodical payments. Where such payments have accrued due during the closing period and have not been paid, it is necessary to create a Reserve for the accrued portion.

These Reserves are *debited* to the appropriate expense account and carried down as *credit* balances in the same way as the Reserve for Discount, the balances being treated as liabilities in the Balance Sheet.

There are cases in which charges, a portion of which relates

to the new period, have been paid in the closing period, as, for instance, insurance premiums (which are payable in advance). In such cases it is necessary to *credit* the new period's share to the appropriate nominal account and carry down the Reserve as a *debit* balance, which appears in the Balance Sheet as an asset.

Reserves are made in a similar way for such items as repairs, carriage, etc., when the expense has been incurred but not paid, the Reserve appearing as a credit balance on the account after the transfer to Profit and Loss Account has been made.

The student should understand that the effects of making the Reserves and carrying them down as balances are as follows—

(*a*) An equitable charge for expenses is made against Profit and Loss Account.

(*b*) The assets and liabilities are accurately stated in the Balance Sheet.

(*c*) The balance carried down goes to reduce the charge for the ensuing period when the expense is actually paid and debited to the account.

Example. A B makes up his books at 31st December, 19... He finds that there has been charged in his accounts—

1. Insurance premiums paid to 30th June next, amounting to £50.

2. Rates amounting to £160 paid to 31st March next.

On the other hand, liabilities have accrued in respect of the following items, which, as the demand notes have not yet come to hand, have not appeared in the books, viz.—

3. Ground Rent. One year due 31st January next, £120. (Ground Rents are almost invariably due at the close of the term.)

4. Income Tax due for payment 1st January next, in respect of the financial year ending 5th April next, amounting to £60, being three-quarters of his liability for the year.

There is also due one week's wages to employees, £75; and the railway company's carriage account for the month of December, which is estimated to be about £30, has not yet come to hand.

Show how these items accrued and paid in advance are dealt with in the books of account.

Dr. INSURANCE ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. June 30	To Sundries	I.B. 6	50	–	–	19.. Dec. 31	By Balance c/d, being 6 mos'. (½) premiums paid in advance	√	25	–	–
						,,	,, Profit & Loss A/c	P.L.	25	–	–
			50	–	–				50	–	–
19.. Dec. 31	To Balance b/d	√	25	–	–						

Dr. RATES ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. June 30	To Sundries	I.B. 6	160	–	–	19.. Dec. 31	By Balance c/d, being 3 mos'. (¼) rates paid in advance	√	40	–	–
							,, Profit & Loss A/c	P.L.	120	–	–
			160	–	–				160	–	–
19.. Dec. 31	To Balance b/d	√	40	–	–						

Dr. GROUND RENT *Cr.*

			£	s.	d.				£	s.	d.
19.. Dec. 31	To Balance c/d, being 11 mos'. ($\frac{11}{12}$) rent accrued due	√	110	–	–	19.. Dec. 31	By Profit & Loss A/c	P.L.	110	–	–
						19 Dec. 31	By Balance b/d	√	110	–	–

Dr. INCOME TAX *Cr.*

			£	s.	d.				£	s.	d.
19. Dec. 31	To Balance c/d, being 9 mos'. (approx.) tax accrued due	√	60	–	–	19.. Dec. 31	By Profit & Loss A/c	P.L.	60	–	–
						19.. Dec. 31	By Balance b/d.	√	60	–	–

Dr. WAGES ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. Jan. 1 to Dec. 24	To Cash .	C.B.	3,400	–	–	19.. Dec. 31	By Profit & Loss A/c .	P.L.	3,475	–	–
Dec. 31	,, Balance c/d, being 1 wk's. Wage accrued .		75	–	–						
						19.. Dec. 31	By Balance b/d	✓	75	–	–

Dr. CARRIAGE ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. Jan. to Nov.	To Sundries .	I.B.	350	–	–	19.. Dec. 31	By Profit & Loss A/c .	P.L.	380	–	–
Dec. 31	,, Balance c/d, being 1 mos'. Carriage accrued .	✓	30	–	–						
						19.. Dec. 31	By Balance b/d	✓	30	–	

It will be observed that, in the cases of the Insurance and Rates Accounts, there are debit balances left on the accounts. They virtually stand for sums owing by the insurance company and the rating authority for benefits not yet expired. They are, therefore, assets, and are treated as such in the Balance Sheet.

In the case of the Ground Rent, Income Tax, Wages and Carriage Accounts, there are credit balances standing. These represent sums due to the landlord, the Government, the workpeople, and the railway company for benefits received, but for which accounts have not yet been rendered, or which have not yet been paid for. They are creditors, and, consequently, these balances appear in the Balance Sheet as liabilities.

In the case of the debit balances carried down, they form a part of the charge which will be made against the next trading period, because they exist in respect of benefits which will accrue to that period.

On the other hand, the credit balances will relieve the ensuing trading period, when the full charge comes to be made in the usual manner against those accounts through the Invoice Book when the invoices are rendered, or the Cash Book when the wages are actually paid.

Suspense Account. It is sometimes the practice to transfer the apportioned items at the close of a trading period to a Suspense Account instead of carrying them down as balances on the accounts in respect of which they are created. At the opening of the next ensuing period it then becomes necessary to retransfer the items in the Suspense Account to the nominal accounts from which they originally came, where they will, of course, appear on the opposite side to that on which they were originally entered, and will thus correspond with the balances brought down upon the accounts illustrated above. The practice of recording the apportionments of periodical charges in the Suspense Account is now rapidly falling into disuse.

SUMMARY

1. Reserves for accruing charges are made by debiting the appropriate account with the apportioned charge accrued, and carrying down the charge to the credit side as a balance, which subsequently appears in the Balance Sheet as a liability.
2. Charges paid in advance are credited in the appropriate nominal accounts and are carried down to the debit side of the accounts. They appear in the Balance Sheet as assets.
3. The effect of this method of treatment is to charge or credit a fair proportion of the expense or profit of any period, as the case may be, against or in favour of the Profit and Loss Account of that period, and to provide for equitable charges being made against, or credits being given to, ensuing periods.

EXERCISE 56

In the Trial Balance of Robert Thomas at 30th September, 19.., there appear the following debit balances, viz.—

	£	s.	d.
1. Insurance	100	–	–
2. Rates	160	–	–
3. Property Tax	70	–	–
4. Ground Rent	40	–	–
5. Wages	1,750	–	–

The Insurance represented a year's premiums paid to 31st December, 19..; the Rates were a year's charge paid to the following 31st March. There was an annual charge for Ground Rent of £80, which had been accruing since 1st April, 19..; and two days' wages, amounting to £30, had accrued due at 30th September, 19...

You are required to create these nominal accounts and to make therein the necessary adjustments by apportioning the charges accrued due and paid in advance, and to show the net amounts chargeable to Profit and Loss Account.

EXERCISE 57

The outstanding debts due to Robert White on 31st December, 19.., were shown by his books to be £5,625. Against certain doubtful debts a reserve of £625 had been made. The Discounts allowed by him during the year were £650. Create a reserve of 2½% on the debtors, and show the Discount Account and Reserve for Doubtful Debts Account in White's Ledger, and set out the Debtors and Reserves for Doubtful Debts and Discounts as they would appear in Robert White's Balance Sheet at 31st December, 19...

EXERCISE 58

On 28th February, 19.. the following balances stood in the books of W. Wright—

	£	s.	d.
Capital	6,899	7	4
Freehold Property	8,000	–	–
Plant and Machinery	5,250	15	–
Loan on Mortgage at 4%	6,000	–	–
Rolling Stock	300	–	–
Bills Payable	550	7	9
Bills Receivable	250	6	3
Creditors	1,250	14	1
Debtors	700	17	2
Stock at beginning of year	600	7	8
Sales	7,906	10	2
Purchases	5,705	15	5
Wages	756	14	3
Rates	36	–	–
Telephones, Rental and Calls	15	10	–
Insurance	40	–	–
Income Tax	300	–	–
Sundry Trade Expenses	90	7	2
Interest on Mortgage Loan payable	200	–	–
Cash at Bank	250	4	8
,, in Hand	10	1	9
Discount allowed	100	–	–

The Mortgage Interest was charged up to 31st December previous; the Rates were paid to 31st March. The quarterly Telephone Rental was £3 and was paid to 31st March. Of the £40 for Insurance, £10 expired 28th February, £12 on 25th March, and the balance on 24th June. The Income Tax was one year's charge to 5th April. Make the necessary apportionments. Make a specific reserve of £20 and a general reserve of 5% for Bad Debts, and a Discount reserve of 2½% on debtors. Prepare the Trading and Profit and Loss Account and Balance Sheet in order to find Wright's profit and his capital at 28th February, assuming the stock on hand at that date to be £748 4s. 2d.

EXERCISE 59

The books of A. P. Portion showed the following balances, amongst others, at the close of the year—

	Dr.	Cr.
	£	£
Wages	2,005	
Interest on Loan		170
Insurance	120	
Discounts allowed	1,175	
Discounts received		230
Patent Fees	40	
Debtors	7,000	
Creditors		5,000

It was ascertained that one week's Wages, £100, due on 31st December, were paid the following day. The Fire Insurance was held on Cover Note from 1st December, and the annual premium of £365 per annum had not been paid. The Patent Fees, £40 per annum, were paid up to the 30th June following. Two months interest on a Loan of £4,000 at 6% had accrued due to the business on 31st December.

Make the necessary adjustments in the accounts of Portion, and reserve for discount 5% on debtors and 2½% on creditors and show the transfers to Profit and Loss Account.

CHAPTER XV

CONSIGNMENT ACCOUNTS

MERCHANTS trading in various parts of this country and abroad frequently carry on their business in places other than that in which their principal place of business is situated, through the medium of their branch houses. In many cases, however, the amount of trade done in certain parts is insufficient to warrant merchants incurring the cost of the establishment and upkeep of branches. They therefore arrange for the business to be carried on in those parts by agents, to whom they send, or " consign," their goods, and to whom they pay a commission upon the sales effected.

The goods so sent are known as a " Consignment." The merchant who consigns the goods is known as the " Consignor," and the agent who receives the goods for sale is termed the " Consignee." It should be clearly understood by the student that the goods are not sold to the agent. They are only sent to him for sale, and until they are sold they remain the property of the consignor. Consequently, neither in the books of the consignor nor in the books of the consignee must the consignment be treated as a sale; that is to say, that in the consignor's books the goods must not be debited to the *personal* account of the agent, nor in the consignee's books should they be credited to the personal account of the consignor as if they were a purchase.

In the Books of the Consignor. To the merchant, the consignment is known as a " Consignment Outwards," and the transactions relating to it are recorded in a " Consignment to A B (the agent) " Account.

The goods are, or should be, consigned at cost price, and it is customary to send at the same time as the goods a *pro forma* invoice (i.e. a formal invoice or record giving the particulars of the goods sent, the marks on the cases, and the value at which they have been consigned).

The amount of the invoice is then *debited* to the " Consignment Account " and credited to a " Goods in Consignment

Account." This latter account is raised in order to keep the consignment goods distinct from those which have been actually sold in the course of business, and which are, in the usual course, credited to the Sales Account.

When dispatching the goods, the consignor has to pay certain expenses, such as carriage, freight, and insurance of the goods whilst in transit. These expenses must be debited to the "Consignment Account" by a posting from the Cash Book when the payment is made.

The result of the book entries up to this point is that the Consignment Account shows the cost of the goods when they arrive in the consignee's hands, for it shows the initial cost of the goods plus the expenses incurred in transferring them to the agent.

It will be clear, therefore, if, when the goods are sold, the proceeds are credited to the Consignment Account, that the balance on this account will represent the profit or loss on that particular consignment, since the cost of the goods has been debited and the realized value has been credited.

This is actually the case; but it must be remembered that, in addition to the expenses incurred by the consignor, there will be certain expenses incurred by the consignee in respect of the goods when they come to his hands, and there will also be the commission of the consignee for selling the goods. These expenses and commissions all go to reduce the profit or increase the loss on the consignment, and should, therefore, appear as a charge in the Consignment Account. It is not customary, however, for the expenses and commission to be debited to the Consignment Account. The charge is adjusted by crediting to the Consignment Account the net proceeds of the sale of the consignment, after deducting the agent's expenses and commission.

Account Sales. What happens is this. The consignee keeps a record of his expenses in connection with the goods and, when the sale has been effected, he renders to the consignor an "Account Sales" of the consignment, in which he shows the gross proceeds of the sales of the goods and the deduction therefrom of his expenses and commission, leaving the net proceeds, for which he encloses either a cheque or Bill of Exchange in settlement.

The following is the form of an Account Sales—

ACCOUNT SALES of 15 Cases of Cream Wove Bank Paper *ex* S.S. *Jonah* from Hull, sold for and on behalf of S. S. Smith & Co. by the undersigned.

		£	s.	d.	£	s.	d.
S.S. S. 1/15	300 reams of Paper at 4s. .				60	–	–
	Landing and Cartage .	2	10	–			
	Fire Insurance . .	2	–	–			
	Warehouse Rent . .		15	–			
	Customs and Duties .	4	–	–			
	Commission 5% . .	3	–	–			
					12	5	–
	Net proceeds as per draft . . .				£47	15	–
16*th*	*May*, 19.. (Signed) JONES & Co.						

On receipt of the Account Sales, the consignor **credits** the Consignment Account with the **net proceeds** as shown by that document, and debits the consignee's **personal** account with the sum which is now due from him. The bill which is enclosed with the Account Sales is then debited to the Bills Receivable Account and credited to the consignee's account, thus closing the latter account.

Example. On 6th January, S. S. Smith & Co. consigned to Jones & Co., of Melbourne, fifteen cases of paper for sale subject to a commission of 5 per cent. A *pro forma* invoice was sent with the goods, invoicing them at £37 10s. Smith & Co. incurred expenses as follows—

	£	s.	d.
Freight	2	–	–
Insurance	1	10	–
Dock Dues	3	–	–

On 29th June, they received an Account Sales from Jones & Co., showing the net proceeds of the consignment to be £47 15s., and enclosing a bill at sixty days' sight for this amount.

Record the transactions in the Journal and Ledger of S. S. Smith & Co.

JOURNAL

			£	s.	d.	£	s.	d.
19.. Jan. 6	Consignment to Jones & Co. . . *Dr.*	20	37	10	–			
	To Goods on Consignment.	36				37	10	–
	for *pro forma* invoice value of 15 cases of Cream Wove Bank Paper consigned this date							
June 29	Jones & Co. . . *Dr.*	14	47	15	–			
	To Consignment to Jones & Co.	20				47	15	–
	for net proceeds of Account Sales of 15 cases of Paper received this date							
,,	Bills Receivable A/c . *Dr.*	18	47	15	–			
	To Jones & Co. . . .	14				47	15	–
	for Draft at 60 days' sight in settlement of Account Sales							
,,	Consignment to Jones & Co. . . *Dr.*	20	3	15	–			
	To Profit and Loss Account	P.L.				3	15	–
	for Profit on Consignment .							

Dr. CASH BOOK *Cr.*

			Dis.	Cash	Bank				Dis.	Cash	Bank £	s.	d.
						Jan. 6	By Freight	20			2	–	–
							,, Insurance	20			1	10	–
							,, Dock Dues	20			3	–	–

LEDGER

Dr. CONSIGNMENT TO JONES & CO. *Cr.*

			£	s.	d.				£	s	d.
19.. Jan. 6	To Goods on Consignment	J. 1	37	10	–	19.. June 29	By Jones & Co., Net Proceeds of A/c Sales .	J. 1	47	15	–
,,	,, Cash— Freight .	C.B. 1	2	–	–						
	Insurance .	,,	1	10	–						
	Dock Dues .	,,	3	–	–						
June 29	,, Profit & Loss A/c . .	P.L.	3	15	–						
			£47	15	–				£47	15	–

Dr. GOODS ON CONSIGNMENT ACCOUNT Cr.

			£	s.	d.				£	s.	d.
19.. June 29	To Trading A/c .	P.L.	37	10	–	19.. Jan. 6	By Consignment to Jones & Co.	J. 1	37	10	–

(It will be observed that, in order to complete the entries relating to this transaction, the balance originally credited to the Goods on Consignment Account must be transferred to the credit of Trading Account.)

Dr. JONES & CO. Cr.

			£	s.	d.				£	s.	d.
19.. June 29	To Consignment A/c . .	J. 1	47	15	–	19.. June 29	By Bills Receivable . .	B.R. 4	47	15	–

Dr. BILLS RECEIVABLE Cr.

			£	s.	d.				£	s.	d.
19.. June 29	To Jones & Co. .	B.R. 4	47	15	–						

In the event of only a portion of a consignment being sold at the time the books are closed, it is necessary to bring into account the stock of consigned goods unsold. This stock must be valued at the price at which the goods were consigned *plus* a proportionate amount of the expenses incurred in making the consignment. Suppose goods valued at £1,000 had been consigned, of which only half were sold when the books were closed, and the expenses of consigning them were £100. The stock remaining in the consignee's hands must be valued at £550 (i.e. £500 representing half the consignment price plus £50 representing half the expenses).

The stock must then be credited to the Consignment Account, and debited to a "Stock on Consignment Account." The balance remaining on the Consignment Account will then represent the actual profit or loss on the portion of the consignment which has been sold, and must, therefore, be transferred to Profit and Loss Account. The Consignment Account is re-opened at the beginning of the next trading period by debiting it with the stock unsold, at the value at which it was taken when closing the books, and Stock on Consignment Account is credited with the same figure, thus closing that account.

In the Books of the Consignee. To the consignee, the goods he receives for sale represent a "Consignment Inwards"; but, as he is not the owner of the goods, he does not charge himself with their value until a sale takes place. It is customary to make a memorandum of the goods at the head of the Consignment Account, for the purposes of reference only.

When he is called upon to pay the expenses upon the arrival of the goods, he opens an account in the name of the consignor and debits to this account, by a posting from the Cash Book, the expenses incurred. As sales are made from time to time, he credits the consignor with their amount, debiting the purchasers. When the whole consignment has been disposed of, he debits the account with his commission at the agreed rate upon the sales, crediting Commission Account. He prepares the Account Sales and accepts a bill for the net amount, which he debits to the consignor's account and credits to the Bills Payable Account.

The account of the consignment referred to in the previous example (page 137) would appear in the Ledger of Jones & Co., Melbourne, as follows—

Dr. S. S. SMITH & CO. (CONSIGNMENT ACCOUNT) *Cr.*

(*Consignment of 15 Cases of Paper invoiced 6th Jan., 19.., at £37 10s.*)

			£	s.	d.				£	s.	d.
19.. May 16	To Cash— Landing and Cartage	C.B. 7	2	10	–	19.. May 16	By Sales	S.B. 70	60	–	–
	Fire Insurance	,,	2	–	–						
	Warehouse Rent	,,		15	–						
	Customs and Duties	,,	4	–	–						
,,	,, Commission	J. 4	3	–	–						
,,	,, Bills Payable	B.P. 14	47	15	–						
			60	–	–				60	–	–

It will be observed that the Account Sales rendered by Jones & Co. to the consignor is practically a copy of this Ledger Account (before the debiting of the draft), set out in a slightly different form, but containing the identical particulars.

Del Credere Agents. This term is applied to consignees and other agents who, for an additional commission, undertake that the sums due for sales made by them on behalf of the

consignor or other principal will be duly paid by the debtors. The consignor is thus freed from any possible loss by bad debts in respect of the goods consigned.

JOINT ACCOUNTS

A Joint Account, or Joint Adventure, is the term applied to the trading operations when two or more persons unite in a certain set of transactions with a view to sharing the resultant profit or loss.

Their relations are in the nature of a partnership for the purpose of the specific adventure only. They agree mutually to share profits and to contribute mutually to the expenses and losses, but the partnership is restricted to this particular operation. There is, consequently, no need for a partnership name, and it is unusual for any special books to be obtained, or for any special banking account to be opened for the record of the transactions. Each party records in his own books the actual transactions which he effects on behalf of the Joint Account, and, from time to time, incorporates therein the transactions which the other party or parties have similarly effected, and of which they have furnished details.

A Joint Adventure Account is opened to which are debited the expenses and liabilities incurred by the party in whose books the record is being made, the corresponding credits appearing either in the Cash Account or in Creditors' Accounts.

A personal account is then opened for each of the other joint parties to the adventure. They are respectively credited with the expenses and liabilities they have incurred, and the Joint Adventure Account is debited.

Subsequently, when the proceeds of the consignment, speculations, or dealings which are the subject of the adventure have been realized, the Joint Adventure Account is credited, and the Cash Account, or personal accounts of the parties receiving the proceeds, are debited.

The Joint Account will, thus, at this point show on the debit side all the costs and expenses incurred, and on the credit side the net proceeds. The balance on the account, therefore, represents the profit or loss on the adventure. The balance should be carried down and apportioned between the parties in the agreed proportion of their shares. The personal accounts are then debited with the share of loss due by

each, or credited with the share of profit, the corresponding credit or debit appearing, of course, in the Joint Account. The balance which then remains on the Joint Account represents the profit or loss which falls to the share of the party in whose books the record appears, and must be transferred to the Profit and Loss Account. Meanwhile, the balances standing on the personal accounts of the remaining joint parties represent sums due to or by them, and may be settled by the transfer of cash.

Example. On 1st July, 19.., A and B entered into a Joint Adventure, and on this date purchased a cargo of merchandise for £1,000, of which A paid £600 and B paid £400. Their further transactions were—

			£	s.	d.
July	2.	A paid Carriage, etc.	10	–	–
	4.	B paid Travelling Expenses . .	5	–	–
	12.	B sold the Goods for	1,150	–	–
		Out of which he paid for Commission and Postages	15	–	–

They agreed to share profits and losses equally.

Show the Joint Adventure Accounts and personal accounts of the joint parties in the Ledgers of A and B respectively.

A'S BOOKS

Dr. JOINT ADVENTURE WITH B *Cr.*

19..		£	s.	d.	19..		£	s.	d.
July 1	To Cash—Part purchase money of Cargo. .	600	–	–	July 12	By B, proceeds of Sale. .	1,150	–	–
,,	,, B—the same	400	–	–					
2	,, Cash—Carriage .	10	–	–					
4	,, B—Travelling Expenses	5	–	–					
12	,, B—Commission, Postages, etc. .	15	–	–					
	,, Balance c/d being profit .	120	–	–					
		1,150	–	–			1,150	–	–
19..					19..				
July 12	To B—Half share of profit .	60	–	–	July 12	By Balance b/d.	120	–	–
	,, Profit & Loss A/c, the same	60	–	–					
		120	–	–			120	–	–

Dr. B'S ACCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
19.. July 12	To Joint A/c—Proceeds of Sale . .	1,150	–	–	19.. July 1	By Joint A/c—Cash paid on Purchase .	400	–	
					4	,, Do. Travelling Expenses .	5	–	–
					12	,, Do. Commission . .	15	–	–
						,, Do. Share of profit. .	60	–	–
						,, Balance c/d .	670	–	–
		1,150	–	–			1,150	–	–
19.. July 12	To Balance b/d .	670	–	–					

B'S BOOKS

Dr. JOINT ADVENTURE WITH A Cr.

Date		£	s.	d.	Date		£	s.	d.
19.. July 1	To Cash—Part purchase money of Cargo. .	400	–	–	19.. July 12	By Cash—Proceeds of Sale . .	1,150	–	–
	,, A, the same .	600	–	–					
2	,, A, Carriage .	10	–	–					
4	,, Cash—Travelling Expenses .	5	–	–					
12	,, Do. Commission, Postages, etc. .	15	–	–					
	,, Balance c/d, being profit.	120	–	–					
		1,150	–	–			1,150	–	–
19. July 12	To A, Half share of profit .	60	–	–	19 . July 12	By Balance b/d .	120	–	–
	,, Profit & Loss A/c the same.	60	–	–					
		120	–	–			120	–	–

Dr. A'S ACCOUNT Cr.

Date		£	s.	d.	Date		£	s.	d.
					19.. July 1	By Joint A/c—Cash paid .	600	–	–
					2	,, Do. Carriage	10	–	–
					12	,, Do. Share of profit .	60	–	–
							670	–	–

It will be seen from the foregoing solutions that the Joint Accounts in the books of A and B respectively show exactly

the same result, whilst B is a debtor for £670 in A's books, and A is a creditor for £670 in B's books, the payment of which by B will close both accounts. In each case the Profit and Loss Account has been credited with £60, being the half share of the profit.

SUMMARY

1. Consignment Accounts are the records of transactions arising on the consignment and sale of goods by an agent.
2. In the books of the consignor, the Consignment Account is debited with the goods and the costs incurred in consigning them, and is credited with the net amount of the "account sales."
3. An "account sales" is a statement sent to the consignor by the consignee showing the value of the goods sold, and the deduction of the charges incurred and agents' commission due.
4. In the books of the consignee no record, other than a memorandum, is made of the receipt of the goods. The account is debited with all charges and expenses incurred on the goods and is credited with the value of goods sold from time to time. It is also debited with the agent's commission, and is closed by the debiting of the cash or bill remitted in settlement.
5. A Joint Account is the term applied to the record of a joint adventure of two or more persons who share the resulting profit or loss.
6. The Joint Account is debited with the expenses of the adventure and the cost of the goods, and is credited with the proceeds.
7. The personal accounts of the adventurers are credited with the funds they provide and the expenses they meet respectively.
8. The balance of profit or loss is debited or credited in the Joint Account, and charged or credited to the personal accounts of the adventurers. The transfer of cash due to or from each party then closes the account.

EXERCISE 60

The Merchant Trading Co. consigned to their agent at Singapore, on 20th April, 19.., Goods to the value of £1,000. They paid on them the following charges: Freight, £30; Insurance, £20; Sundry Expenses, £10.

On 27th September, 19.., they received an Account Sales from the agent which showed that the goods had realized £1,300, and that the agent had paid £60 for Duties, £10 for Dock Dues, £38 for Warehousing and Insurance, and had charged an agreed Commission of 3% on the sales. He enclosed an acceptance for the balance due.

1. Prepare a copy of the Account Sales.
2. Show the transactions in the books of—
   (*a*) the Consignor; and (*b*) the Consignees.

EXERCISE 61

A. Jones and B. Smith entered into a joint adventure. Jones purchased a consignment of timber for £700, half of which was paid to him by Smith. A. Jones paid carriage and other expenses amounting

to £30. Smith paid travelling expenses, £5 10s. Smith sold the timber for £850, paying an agent's commission of £25 10s.

Record the account of the adventure in (*a*) the books of Jones and (*b*) the books of Smith, dividing the profit equally between them.

EXERCISE 62

The London Chamber of Commerce

(*a*) Copperfield & Dombey traded in partnership as Wholesale Hosiers. On the 1st January, 19.., the balances in the Sales, Bought, and Private Ledgers were as follows—

Debit Balances

	£	s.	d.
S. Weller, Draper	236	7	6
J. Bass, Draper	19	2	4
S. Stearforth, Draper	432	7	10
Stock	3,450	–	–
Cash at Bank	678	2	4
Petty Cash	8	–	–
Furniture and Fixtures	350	–	–

Credit Balances

	£	s.	d.
C. Micawber, Hosiery Manufacturer	241	10	6
B. Dorritt, Hosiery Manufacturer	76	5	10
Bill Payable due 15th January, 19..—B. Rudge	141	3	8
Reserve for Bad and Doubtful Debts	70	–	–
,, for Employees' Commission	45	–	–
Capital Account—D. Copperfield	2,300	–	–
,, ,, S. Dombey	2,300	–	–

All receipts were paid into the Bank.

You are to open the Bought, Sales, and Private Ledgers with the above balances and to enter the following transactions for the month of January into the proper subsidiary books, post to the Ledgers, and extract a Trial Balance at 31st January, 19...

19..

Jan. 2. Drew Cheques—
  Petty Cash, £45.
  Wages, £12 10s.

,, Paid Employee's Commission, £45, out of petty cash.

5. Received from S. Weller cheque for his account, *less* 2½% discount.

6. Purchased from C. Micawber—
  300 Men's Cardigan Jackets at 45s. 9d. per doz.
  475 Ladies' Sports Coats at 10s. 9d. each.
  30 doz. Scarves at 19s. per doz.

7. Received from S. Stearforth his acceptance at three months dated 6th January, 19.., for half of his account. Discounted same with bankers, who charged £3 for discount.

EXERCISE 64

Lancashire and Cheshire Union

On 4th October, 19.., A consigns goods costing £150 to X at Quebec. He (A) pays carriage and freight, £20; and insurance, £5. On 11th December of the year following, A received from X an Account Sales showing that the goods had realized £250. From this, X deducts expenses, £12, and 7½% commission (£18 15s.); and encloses a Sight Draft for the balance due to A. Show the Consignment Account in A's Ledger.

EXERCISE 65

Lancashire and Cheshire Union

B. Lindley received from W. Simpson 100 pianos invoiced at £20 each, to sell on Simpson's account. B. Lindley paid freight, £100; insurance, £75; storage, £50. He sold them for cash at an average price of £30 each, *less* 5%. Lindley's commission for selling was fixed at £250.

How would Simpson's account appear in Lindley's Ledger?

CHAPTER XVI

RECEIPTS AND PAYMENTS ACCOUNTS: INCOME AND EXPENDITURE ACCOUNTS: DISTINCTION BETWEEN CAPITAL AND REVENUE

A Receipts and Payments Account is one which records, either in summary form or in detail, the cash actually received and actually paid within the period to which it relates.

An Income and Expenditure Account differs from a Receipts and Payments Account in that it records, always in summary form, the whole of the income of the period to which it relates, *whether actually received or not*, and the whole of the expenditure of that period, *whether actually paid or not*.

In order, therefore, to prepare an Income and Expenditure Account, it is necessary to add to the actual receipts any sums accrued due at the close of the period, and to deduct the sums which had accrued due at the opening of the period and which have been received during the period. Similarly, the creditors at the close must be added to the cash actually paid, and the creditors at the opening of the period deducted.

The account may thus be built up largely from cash records. It may also be prepared in the same way as the ordinary Profit and Loss Account, from the usual double entry records.

Columnar Cash Books. For the purpose of compiling Receipts and Payments Accounts in summary form, use is commonly made of a columnar or analytical Cash Book. This book consists of the ordinary form of Cash Book, with the discount columns omitted, but with the addition of a number of analysis columns to each side of the book. In these columns the receipts and payments are analysed under appropriate headings.

The totals of the analytical columns are balanced across with the total receipts and payments respectively at the close of the period, and are then extracted, and form the summary account of receipts and payments for that period.

This class of book can only be usefully adopted by concerns and institutions whose transactions are all " cash " transactions, and which neither take nor give credit. In such cases,

the cash transactions fairly reflect the results of the operations, and the Ledger can be dispensed with. Nor is there need for the Invoice Analysis Book, since the analysis of expenditure is effected in the Cash Book.

On the next page is an illustration of a Columnar Cash Book.

It should be observed that a Receipts and Payments Account may include items of a capital nature, whilst an Income and Expenditure Account is usually regarded as the Revenue (or Profit and Loss) Account of a non-trading concern, and, consequently, does not include items of capital.

Distinction between Capital and Revenue. The distinction between capital and revenue expenditure is a very important one, and one which the student should clearly understand. For this purpose, the definition of assets given in Chapter VI must be amplified.

Assets may be divided into two classes, viz. Fixed Assets and Floating Assets.

Fixed Assets are those of a permanent nature which are held for use in carrying on the business, and in earning revenue, e.g. Land, Buildings, Machinery, etc.

Floating Assets are those which are held for the purpose of being converted into cash, e.g. Stock, Debtors, etc.

Capital Expenditure is expenditure which is incurred in acquiring fixed assets (e.g. a new machine), or which increases the value of the fixed assets already acquired, and their income earning capacity, e.g. an additional storey to a warehouse.

Revenue Expenditure is that which is incurred in **maintaining** the earning capacity of fixed assets (e.g. repairs to machinery), or expenditure which leaves no tangible residue of value, e.g. travelling expenses.

Revenue expenditure is exhausted immediately in the process of earning profits, and therefore must be **charged against** profits, whilst a capital expenditure is not immediately exhausted, but leaves a residue of value which is represented by Fixed Assets in a tangible or real form.

The result of a persistent disregard of the difference between these two kinds of expense may easily be disastrous, especially when it takes the form of posting revenue expenses to Capital Accounts. When that is done, the capital is, apparently, although not actually, increased, and a trader may for years

CASH BOOK OF A CHARITY ORGANIZATION SOCIETY

Dr.

RECEIPTS

Date of Receipt	From Whom Received	Nature of Receipt	Counterfoil Receipt No.	Cash			Bank			Total			Sub-scrip-tions			Dona-tions			Legacies			Divi-dends and Interest			Special Cases			Etc.			Etc.		
				£	s.	d.	£	s	d	£	s	d	£	s.	d	£	s	d	£	s	d.	£	s.	d.	£	s	d	£	s.	d	£	s.	d.

PAYMENTS

Cr.

Date of Payment	To whom Paid	Nature of Payment	Voucher No.	Cash			Bank			Total			Relief Granted			Pro-visions Pur-chased			Conval-escent Homes			Special Cases			Salaries			Travel-ling Ex-penses			Manage-ment Ex-penses			Etc.		
				£	s.	d.	£	s	d	£	s	d	£	s.	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d	£	s	d

suppose himself to be doing a successful business, while he is really drifting rapidly towards bankruptcy.

Suppose, for example, that, in a business where valuable machinery is used, all the expense incurred from time to time in maintaining it in working order is charged to Machinery Account, instead of being carried to an account which would eventually be merged into Profit and Loss Account. The result would be that the book value of the machinery, that is, the debit balance of the Machinery Account, would be regularly increasing, while the actual value of the plant would, at best, remain stationary, and generally would be steadily decreasing.

The same remark applies to all articles used in carrying on a trade or business which require occasional replacement or repair, as, for example, horses, carts, tools, buildings, furniture, and such like. It would be, in fact, just as sensible to charge fuel for driving an engine to "Machinery," or fodder for horses to "Horses and Carts" Accounts, as to charge to the same accounts new fire-bars for a furnace, or new shafts for a cart.

The following table will illustrate the distinction between these two classes of expenditure—

Capital Expenditure	Revenue Expenditure
Land, original Cost of Drains.	Cultivation of Land.
New Buildings and Extensions; New or Additional Machinery.	Repairs to Buildings and Machinery.
Wages of Workmen erecting Machinery for use.	Wages of Workmen erecting Machinery for Sale.
Original Cost of Office Furniture.	Wages.
	General Establishment Expenses, i.e. Rents, Rates, etc.
	Bad Debts.
	Interest and other Financial Charges.

Depreciation. It has been stated above that capital expenditure is of such a nature that it is not exhausted immediately. Exhaustion of capital expenditure is, however, continually occurring, but that exhaustion goes on over a considerable period of years before the whole of the capital expenditure is completely used up. It is clear, therefore, if we are to comply with the definition of revenue expenditure given above, that,

whilst the original outlay on fixed assets must be charged to capital, that part of it which becomes exhausted in earning revenue in any particular period must be charged to that period's revenue (i.e. against profits).

This purpose is achieved by making an allowance for depreciation of assets, which, through the medium of the Depreciation Account, is charged against Profit and Loss Account, and at the same time is applied in reducing the book value of the assets, or, in other words, in writing down the capital outlay upon the assets.

Depreciation is defined **as the loss in value of an asset due to wear and tear, obsolescence, and effluxion of time.**

With very rare exceptions, all the fixed assets of a business, such as Buildings, Plant and Machinery, etc., depreciate in value. The depreciation may be caused by constant use, or by the asset becoming obsolete owing to modern inventions and improvements superseding the old asset, or by the passing of time during which the benefit to be derived from the asset can be enjoyed. Plant and Machinery are examples of assets in which the loss is caused by use and obsolescence; whilst the effluxion of time gradually reduces the value of Leasehold Land and Buildings, Patent Rights, and similar assets.

Although not always very apparent, the loss is, nevertheless, a very real one, and one which must be charged against the profits before the true balance of net profit can be ascertained.

The method by which it is recorded in the books is as follows—

1. Ascertain the rate of depreciation of the asset.
2. Open a Depreciation Account, and debit it with the estimated loss by depreciation.
3. Credit the asset account with the same amount, thus preserving the double entry.
4. Transfer the debit balance on Depreciation Account to Profit and Loss Account.
5. Show the asset in the Balance Sheet at its value at the opening of the period of trading, and show the amount of depreciation written off as a deduction, carrying out the net balance standing on the asset account in the books.

Example. The Plant and Machinery in A's books stood at £20,000 on 1st January, 19.. . Depreciation is to be written off at the rate of 10 per cent per annum. Give the Journal

entries recording this loss and show the Plant and Machinery as it will appear in A's Balance Sheet at 31st December, 19..

JOURNAL

			£	s.	d.	£	s.	d.
19.. Dec. 31	Depreciation A/c . *Dr.* To Plant & Machinery A/c for 10% depreciation written off the value of this asset for the year ending 31st December, 19..	64 72	2,000	–	–	2,000	–	–
,,	Profit and Loss A/c . *Dr.* To Depreciation A/c . for transfer of Depreciation on Plant and Machinery	P.L. 64	2,000	–	–	2,000	–	–

Dr. DEPRECIATION ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. Dec. 31	To Plant and Machinery .	J. 1	2,000	–	–	19.. Dec. 31	By Profit and Loss A/c .	P.L.	2,000	–	–

Dr. PLANT AND MACHINERY ACCOUNT *Cr.*

			£	s	d.				£	s.	d.
19.. Dec. 31	To Balance .	√	20,000	–	–	19.. Dec. 31	By Depreciation at 10% per annum .	J. 1	2,000	–	–
							,, Balance c/d	√	18,000	–	–
			20,000	–	–				20,000	–	–
19.. Dec. 31	To Balance b/d	√	18,000	–	–						

This asset will appear in the Balance Sheet in the following form, viz.—

	£	£
Plant and Machinery at 1st January, 19.. .	20,000	
Less Depreciation at 10% per annum . .	2,000	
		18,000

Fluctuation of Assets. Depreciation of assets must be carefully distinguished from fluctuation of assets. The latter term is applied to the varying rise and fall in the value of assets due to causes outside the business. So far as fixed assets are concerned, fluctuations in their values can be ignored, as they are held permanently for use, and not for sale, and are, therefore, unaffected by the fluctuations. In the case of floating assets (e.g. stock), the fluctuation must be taken into

account when it has the effect of reducing the market price *below* cost price. Stock must be valued at market price or cost price, whichever is the lower, so as to anticipate any loss due to the fluctuation. An increase of market price over cost price should be ignored, as it represents a profit which is unrealizable until a sale is effected.

SUMMARY

1. Receipts and Payments Account records actual receipts and actual payments of cash.
2. Income and Expenditure Account records the income of a period whether received or not, and the expenditure of that period, whether paid or not.
3. Fixed Assets are permanent assets held for use.
4. Floating Assets are those held for conversion into cash.
5. Capital Expenditure is expenditure in acquiring fixed assets, or which increases the value and earning capacity of fixed assets already acquired.
6. Revenue Expenditure is that incurred in *maintaining* fixed assets in a state of efficiency, and in producing revenue.
7. Depreciation is the loss in value due to wear and tear, obsolescence and effluxion of time. It partakes of the nature of revenue expenditure.
8. All Revenue Expenditure, including depreciation, is charged against Profit and Loss Account.
9. All Capital Expenditure is charged to the account of the asset acquired or improved and shown as an asset in the Balance Sheet.
10. Capital Expenditure upon an asset is reduced by the loss in value due to depreciation. Depreciation is consequently credited to the account of the asset, the balance upon which then represents the normal estimated value of the asset.
11. Fluctuations in the value of Fixed Assets may be ignored. Fluctuations in the value of floating assets should be provided for where the effect of the fluctuation is to reduce the value of the asset below cost price.

EXERCISE 66

From the following prepare the Income and Expenditure Account for the year ending 31st December, 19.., of the Exclusive Club—

	£
Subscriptions paid	190
,, in arrear	20
Cash received from sale of Wines, Spirits, etc.	140
,, ,, ,, Billiard Room	60
Donations to the Club	50
Rent, Rates and Taxes	30
,, ,, ,, (not paid)	15
Lighting, Heating, and Cleaning Expenses	27
Repairs	30
Salaries and Wages of Caretakers	75
Printing and Stationery	22

	£
Postages and Petty Cash	32
Outstanding accounts for Stationery	8
Hire of Rooms	16
,, ,, (owing to the Club)	10
Purchases of Wines, Spirits, and Refreshments	106

EXERCISE 67

State which of the following are "Fixed" and which are "Floating" Assets, viz.—

Printing Machines, Book Debts, Consols (£100), Leasehold Land, Stock, Patent Rights, Office Furniture.

Which of these assets may be Fixed Assets in the accounts of one concern and Floating Assets in the accounts of another concern? Explain the reason for your answer.

EXERCISE 68

The assets of the Climax Engineering Co., Ltd., included the following—

	£
Land	10,000
Buildings	40,000
Plant and Machinery	65,000
Horses and Carts	2,000

Create the accounts of these assets, and write off depreciation for the half-year to 30th June, 19.., at the following rates, viz.: Land, 1½%; Buildings, 2½%; Plant and Machinery, 7½%; Horses and Carts, 10%. Show the Depreciation Account, and state what the total charge against Profit and Loss Account will be.

EXERCISE 69

In the accounts of the Shoemaking Concern, Ltd., were the following items, which had been charged as indicated, viz.—

		£	s.	d.	
1.	Stitching Machine (replacing old one)	75	–	–	*Dr.* Capital
2.	Sale of Old Machine	5	–	–	*Cr.* Revenue
3.	Extension of Factory	1,000	–	–	*Dr.* Capital
4.	Wages of Labourers assisting on Extension of Factory	120	–	–	*Dr.* Revenue
5.	Architects' Fees	52	10	–	*Dr.* Revenue
6.	Patent Renewal Fees	25	–	–	*Dr.* Capital
7.	Cost of acquiring Patent	100	–	–	*Dr.* Capital
8.	Experimental Work on Designs	120	–	–	*Dr.* Capital

State in each case whether you consider the items have been correctly treated, and, if wrongly dealt with, make the necessary corrections by Journal entries.

EXERCISE 70

The following is the Cash Account of the Barnstormers' Amateur Dramatic Society for the year to 31st December, 19...

Receipts	£	s.	d.	*Expenditure*	£	s.	d.
Cash in hand, 1st Jan., 19..	5	–	–	Entertainment Tax	27	10	–
Cash in bank, 1st Jan., 19..	10	–	–	Renewal and repair of Scenery, including additions	10	6	8
Takings at performance of "Ye Gods"	48	10	6	Printing, Stationery, Books, etc.	15	7	6
Takings at performance of "Little Fishes"	60	3	6	Production Expenses:			
Members' Subscriptions	25	10	–	"Ye Gods"	20	2	3
Fees received for:				"Little Fishes"	17	4	6
Loan of Parts	1	5	–	House Expenses:			
Loan of Scenery	5	10	–	"Ye Gods"	19	8	6
Sale of Make-up		13	6	"Little Fishes"	17	10	4
Loan from A. Acter	100	–	–	Subscription to Drama League	1	1	–
				Hire of Books for Readings	1	5	–
				Secretarial Expenses	2	8	–
				Part repayment of Loan	75	–	–
				Cash in hand, 31st Dec., 19..	5	2	–
				Cash in bank, 31st Dec., 19..	44	6	9
	£256				£256	12	6

At 31st December there was £5 5s. owing by members for Subscriptions, of which it was anticipated £2 2s. will not be received. Accounts were owing for Repair of Scenery £5 2s., and for Printing and Stationery £3 10s. The Scenery, Books, etc., possessed by the Society were estimated to be worth £30 at 1st January, 19.., and £40 at 31st December, 19... The Secretarial Expenses paid included £1 2s., and the Printing £2 5s., which were owing at the beginning of the year. Prepare from the above an Income and Expenditure Account showing the result of the year's working, and prove it by a Balance Sheet at 31st December, 19...

CHAPTER XVII

CONTRACT ACCOUNTS

THE object of keeping Contract Accounts is to enable the contractor to ascertain, from time to time, the cost of each contract he has entered into, and the profit realized or loss incurred in carrying out each contract.

Contract Accounts may be divided into two classes, viz. Simple Contract Accounts and Departmental Contract Accounts. The former apply to the contracts carried out by builders, and other similar traders, where they compose the main portion of the business. The latter apply to manufacturing and engineering businesses, and are intended to ascertain the costs of contracts carried out by the various departments of the works.

Take as an example the business of a building contractor. The Contract Accounts in such a case would be built up by opening a separate account for each contract undertaken. The account will be charged with—

1. The value of the plant sent to the job.
2. The value of the stores and materials used upon the work.
3. The direct expenses incurred upon the contract, e.g. carriage of materials and plant, wages, etc.
4. A proportion of the indirect charges. Indirect charges are those expenses which cannot be directly attributed to any particular contract. They include the cost of general superintendence of all contracts, the rents, rates, taxes, etc., of the central workshop premises, the financial costs, such as bank interest, interest on loans and capital. The principles on which they are apportioned depend upon the circumstances of each case, and are determined by experience. In some cases they will be divided in proportion to the wages paid on the contracts, in others in proportion to the total cost of each contract, or, more rarely, in proportion to the contract prices.

It will now be clear to the student that, to obtain accurate Contract Accounts, it is essential that there should be a careful analysis of all expenses and costs incurred when they are first recorded in the subsidiary books. It is necessary,

therefore, that these books should be in an analytical form specially adapted to meet the requirements of the case. The chief analysis will occur in the Invoice Books and Wages Books, illustrations of which are given later.

The accounts of the contracts having been charged with their proper proportion of the plant, materials, direct and indirect expenses, it is necessary to credit them with—

1. The value of the contract (i.e. the price for which it is undertaken). The personal account of the person with whom the contract is made will be debited with this amount.

2. The value of any materials or stores returned from the job.

3. The value of the plant and tools returned after the contract has been completed, or during the time it is being worked. It will be necessary to put a valuation upon the plant and tools, which will, of course, be less than that at which they were originally charged out, since they will have lost some of their value by use. The effect of this is to charge each contract with its proper share of the depreciation of the plant used upon the job, and with any tools which have been lost, broken, or destroyed, which expense is, of course, a part of the cost of the contract.

The balance remaining on the account after these entries have been made will represent the profit earned or loss incurred upon the contract, and will be transferred to the credit or debit of the General Profit and Loss Account, as the case may be.

It is customary to give each contract a number, whereby the analysis of the expenditure is facilitated. The Invoice Book of a builder who keeps contract accounts would be somewhat in the form shown on the next page.

The personal accounts would, in the usual course, be credited with the purchases. All plant and stores would be analysed under the general headings and debited to Plant and Stores Accounts respectively. Special materials obtained for particular contracts would be analysed under the appropriate contract and be charged direct to the contract account. General establishment charges would be analysed in the usual way and charged to the various nominal accounts. Plant, materials, and stores would be issued to the various jobs on the receipt of a requisition note duly signed by the responsible foreman, and, through the medium of the Journal (or, in

INVOICE BOOK

Date	Invoice No.	Name	Ledger No.	Total			Materials	Stores	Plant	Special Materials														
										Contract No. 1	Contract Led. Fo.	Amount			Contract No. 2	Contract Led. Fo.	Amount							
				£	s.	d.						£	s.	d.			£	s.	d.			£	s.	d.

some cases, through a special Contract Journal), would be debited to the contracts and credited to Plant and Stores Account. When returns are made from the jobs, this process would be reversed. The result will be that the balance on the Plant and Stores Accounts will represent the stock on hand at the central yard.

By a similar process, the general indirect expenses will be apportioned periodically and charged to the Contract Accounts in the proportions settled, and credited to the various nominal accounts. Carriage will be charged direct to the Contract Accounts as far as it is possible to effect the analysis in the Invoice Book, whilst indirect carriage will be included amongst the indirect expenses and charged accordingly.

There remains only the other direct charges, viz. the wages of the men employed upon the jobs. For the purpose of charging the cost of labour a special Wages Book is required which may be in a form such as that given on page 162.

The analysis columns of this book will be totalled weekly and agree with the general total. The wages paid will, in the first instance, be debited direct to Wages Account from the Cash Book. When the analysis has been completed, the Journal will be brought into use again and the various contract jobs will be charged with their shares of the wages, and Wages Account will be credited. This process may be carried out weekly, or the analysis over a period may be summarized and the periodical total of the summary may be journalized and the wages charged out to the jobs monthly or quarterly in order to save labour.

Example. James Johnson, a builder, had the following contracts in progress at 31st December, 19.., viz.—

	Value of Contract
1. Belton Council School . . .	£22,000
2. Main Road Railway Bridge . . .	8,000

The value of the works in progress, and the value of the plant sent to the job, at this date were as follow—

	Contract No. 1	*Contract No. 2*
Work in progress	£18,000	£6,000
Plant	1,200	360

The value of the stock of materials on hand at 31st December, 19.., was £4,000.

WAGES BOOK

			Week Ending........................ ....19__																												Week Ending....19....					
No.	Name	Job	Time	Rate	Gross Wages			Insce. Stamps		Net Wages			Contract No. 1			Contract No. 2			Contract No. 3			Etc.			Clerical and Indirect Wages			Etc.			Etc.		
								W.	E.																								
					£	s.	d			£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d	£	s.	d.	£	s.	d.

Both contracts were completed during the following month, and the transactions relating thereto are set out below—

			£
Jan.	Purchases of Materials		3,000
	Wages paid during the month		700
	Apportioned thus: Contract No. 1 .	£300	
	,, ,, 2 .	250	
	Clerical, General, and Superintending	150	
Jan.	Paid Inspectors' Fees: Contract No. 1 . .		20
	,, ,, 2 . .		10
	General Expenses incurred . . . . (including General Wages)		850
	Apportioned to the Contracts thus—		
	Contract No 1	£680	
	,, ,, 2	170	
	Materials sent from Central Yard—		
	Contract No. 1		2,500
	,, ,, 2		2,000

On 31st December, the following instalments had been paid on the contracts, viz.—

	£
Contract No. 1	17,000
,, ,, 2	5,400

During January further instalments were received, on Contract No. 1, £2,000; and on Contract No. 2, £1,600.

On 25th January, 19.., Contract No. 1 was completed, and the value of plant, etc., returned to the yard was estimated to be £1,000; and on 28th January, 19.., Contract No. 2 was completed and the proceeds of the sale by auction of plant, etc., was £250.

You are required to show the Contract Accounts, the Education Committee Account, the Railway Company's Account, and the Wages, Materials, and General Expenses Accounts in the books of James Johnson, together with the records in his Journal of such of the transactions as require to be journalized.

Dr. MATERIALS ACCOUNT *Cr.*

			£				£
19.. Dec. 31	To Balance, being value of Stock on hand . .	√	4,000	19.. Jan.	By Contract No. 1 .	J.	2,500
19.. Jan.	,, Sundry Purchasers	I.B.	3,000		,, ,, No. 2 .	J.	2,000
					,, Balance c/d .	√	2,500
			7,000				7,000
19.. Jan. 31	To Balance b/d, being value of Stock on hand . . .	√	2,500				

Dr. BELTON COUNCIL SCHOOL CONTRACT (No. 1) **Cr.**

19..			£	19..			£
Dec. 31	To Balance b/d—			Jan. 25	By Education Committee (amount of Contract price)	J.	22,000
	Work in progress	√	18,000		,, Plant A/c return'd	J.	1,000
19..	Plant on the job.	√	1,200				
Jan. 1	,, Wages . .	J.	300				
	,, Cash — Inspectors' Fees .	C.B	20				
	,, Materials . .	J.	2,500				
	,, General Expenses	J.	680				
	,, Profit & Loss A/c	J.	300				
			23,000				23,000

Dr. MAIN ROAD RAILWAY BRIDGE CONTRACT (No. 2) **Cr.**

19..			£	19..			£
Dec. 31	To Balance b/d—			Jan. 28	By Railway Company (amount of Contract price) .	J.	8,000
	Work in progress	√	6,000		,, Cash—Sale of Plant . .	C.B	250
19..	Plant on the job	√	360		,, Profit & Loss A/c Loss on Contract	J.	540
Jan.	,, Wages . .	J.	250				
	,, Cash — Inspectors' Fees .	C.B	10				
	,, Materials . .	J.	2,000				
	,, General Expenses	J.	170				
			8,790				8,790

Dr. EDUCATION COMMITTEE ACCOUNT **Cr.**

19..			£	19..			£
Jan. 25	To Council School Contract A/c .	J.	22,000	Dec. 31	By Balance (Instalments to date) .	√	17,000
				Jan.	,, Cash . .	C.B	2,000
				Jan. 31	,, Balance c/d .	√	3,000
			22,000				22,000
19..							
Jan. 31	To Balance b/d	√	3,000				

Dr. RAILWAY COMPANY **Cr.**

19..			£	19..			£
Jan. 28	To Main Road Railway Bridge Contract A/c . .	J.	8,000	Dec. 31	By Balance (Instalments to date) .	√	5,400
				Jan.	,, Cash . .	C.B	1,600
				Jan. 31	,, Balance c/d .	√	1,000
			8,000				8,000
19..							
Jan. 31	To Balance b/d .	√	1,000				

Dr. WAGES ACCOUNT **Cr.**

19..			£	19..			£
Jan.	To Cash . .	C.B.	700	Jan.	By Contract No. 1 .	J.	300
					,, ,, No. 2 .	J.	250
					,, General Expenses A/c . .	J.	150
			700				700

Dr. GENERAL EXPENSES ACCOUNT Cr.

19..			£	19..			£
Jan.	To Sundries .	I.B.	700	Jan.	By Contract No. 1 .	J.	680
	,, Wages A/c .	J.	150		,, ,, No. 2 .	J.	170
			850				850

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19..			£	s.	d.	£	s.	d.
Jan.	Sundries— *Dr.*							
	To Wages A/c . .					700	–	–
	Contract No. 1 . .		300	–	–			
	,, ,, 2 . .		250	–	–			
	General Expenses .		150	–	–			
	Apportionment of Wages paid this month							
	Sundries— *Dr.*							
	To General Expenses A/c.					850	–	–
	Contract No. 1 . .		680	–	–			
	,, ,, 2 . .		170	–	–			
	Apportionment of indirect expenses							
	Sundries— *Dr.*							
	To Materials A/c . .					4,500	–	–
	Contract No. 1 . .		2,500	–	–			
	,, ,, 2 . .		2,000	–	–			
	Value of materials transferred to these jobs							
Jan. 25	Belton Education Committee . . *Dr.*		22,000	–	–			
	To Contract No. 1 . .					22,000	–	–
	Contract price now due on completed contract							
28	Railway Company . *Dr.*		8,000	–	–			
	To Contract No. 2 . .					8,000	–	–
	Contract price now due on completed contract							
31	To Contract No 1 . *Dr.*		300	–	–			
	To Profit and Loss A/c .					300	–	–
	Profit on this contract							
,,	To Profit and Loss A/c *Dr.*		540	–	–			
	To Contract No. 2 . .					540	–	–
	Loss on this contract							

Incomplete contracts should be shown on the Balance Sheet at the amount standing to the debit of the Contract Account, which represents the expenditure upon the contract up to date; and the instalments received in respect of the contract should be shown as a deduction therefrom.

SUMMARY

1. Contract Accounts are accounts kept to show the amount of profit made or loss incurred on specific contracts.
2. They are built up by the analysis of the expenditure on materials, wages, and expenses between the various contracts, and are credited with the value of the completed contract, and any returns.
3. General establishment expenses are charged to the contracts either—

    (1) In proportion to the value of the contract; or
    (2) in proportion to the wages paid on the contract.

4. Contract Accounts are thus debited with the costs, including depreciation of plant and tools, and are credited with the sum receivable. The balance, therefore, represents the profit or loss on the contract, and is transferred to the general Profit and Loss Account.

EXERCISE 71

Royal Society of Arts

The following shows the state of affairs of Messrs. John & Joseph Tough, Ironwork Contractors, at 1st January, followed by a record of their transactions during that month.

You are required to arrange and post these transactions to proper accounts opened in the Ledger, and, having balanced them, to draw out a Profit and Loss Account, Trial Balance, and Balance Sheet; to credit each partner with 5% interest on his capital; and carry the amount of the profit or loss in equal shares to their respective Capital Accounts.

All payments over £5 by cheque, unless otherwise stated; all under that amount in coin; all receipts paid into bank same day.

(*Before working this Exercise, study the Notes given at the end of it.*)

Liabilities

	£	s.	d.
Capital—			
John Tough	13,057	14	1
Joseph Tough	15,960	1	6
Sundry Creditors—			
Peter Jones	923	–	–
John Smith	1,027	16	–
Henry Brown	450	–	–
Bills Payable—			
No. 391	1,000	–	–
„ 392	85	10	–

	£	s.	d.
Instalments received on Current Contracts—			
No. 124, Wessex Bridge	960	–	–
,, 125, Mercia Tanks	1,845	–	–
,, 126, Cantia Derricks	2,460	–	–
Mortgage on Premises	15,000	–	–
Assets			
Freehold Works valued at	26,000	–	–
Plant, Machinery, and Rolling Stock	5,280	–	–
Cash at Bankers	2,456	1	9
,, in Office	84	7	4
Bill Receivable, No. 248	365	–	–
Sundry Debtors—			
Thomas Tiger	1,254	9	3
Edward Eagle	1,215	10	–
Current Contracts: Value of work done—			
No. 124, Wessex Bridge	1,530	2	9
,, 125, Mercia Tanks	3,160	10	4
,, 126, Cantia Derricks	5,130	12	8
,, 127, Devonia Viaduct	815	10	–
Stock of Materials on hand	6,241	17	6

19..			£	s.	d.
Jan.	1.	Bought of John Smith, 100 tons of Plates at £7	700	–	–
	2.	Paid him Cheque	1,200	–	–
	,,	,, ,, bill at 2 months	500	–	–
	3.	,, Rates and Taxes	31	7	6
	4.	Received payment, Bill No. 248	365	–	–
	6.	,, Instalment, Contract No. 125	1,000	–	–
	,,	Paid Sundry Petty Expenses	4	16	–
	,,	,, Fire Insurance	32	1	6
	8.	Took Contract for Anglia Girders, No. 128, £1,250			
	9.	Paid Bill No. 392	850	10	–
	,,	Bought of Peter Jones for Cash, 45 cwt. of Rivets at 32s.	72	–	–
	,,	Materials supplied to date—			
		Contract No. 124	248	15	–
		,, ,, 125	132	7	6
		,, ,, 127	315	9	8
		,, ,, 128	264	7	6
	11.	Received of Thomas Tiger, cheque	400	–	–
	12.	Contract No. 126 completed and passed, and balance of Contract received	3,500	–	–
	,,	Partner's Drawings: John Tough	500	–	–
		,, ,, Joseph Tough	500	–	–
	13.	Bought of Henry Brown for 2 months' bill, 50 tons Angles at £7 10s.	375	–	–
	,,	Drew Cheque for Wages paid this day—			
		Contract No. 124	222	6	–
		,, ,, 125	107	5	–
		,, ,, 126	5	15	6
		,, ,, 127	128	18	6
		,, ,, 128	52	3	4

EXERCISE 71—(*contd.*)

19..		£	s.	d.
Jan. 16.	Paid Henry Brown	430	–	–
	Discount allowed	20	–	–
17.	Received of Edward Eagle	1,200	–	–
	Allowance on Settlement	15	10	–
18.	Received Instalment on Contract No. 124	500	–	–
21.	Bought of Stephen Spicer, Timber as per Invoice	142	3	6
22.	Received Instalment, Contract No. 128	350	–	–
23.	,, Cash : Sundry Sales	18	1	6
24.	Partner's Drawings: John Tough	150	–	–
,,	Paid Peter Jones	500	–	–
25.	,, Bill, No. 391, due this day	1,000	–	–
,,	Received of Thomas Tiger, bill at 3 months	841	3	6
26.	Paid Stephen Spicer	140	–	–
	Discount allowed	2	3	6
27.	Drew cheque for Wages paid this day—			
	Contract No. 124	125	19	4
	,, ,, 125	22	11	–
	,, ,, 127	173	7	11
	,, ,, 128	230	4	4
,,	Received net proceeds Sale by Auction of Loose Plant, Contract No. 126, value in books £350	186	15	–
,,	Paid Office Salaries for month	27	10	–
,,	Received Instalment, Contract 127	1,000	–	–
28.	Contract No. 125, completed and passed: Final balance due £2,100; Instalment received	1,650	–	–
29.	Paid half-year's Interest on Mortgage	300	–	–
31.	Materials supplied to date—			
	Contract No. 124	831	15	–
	,, ,, 127	463	10	–
	,, ,, 128	159	17	6
,,	Paid Water Rate	10	4	6
,,	,, Inspector's Fees: Contract No. 125	31	10	–
,,	,, off Mortgage	2,000	–	–
,,	Depreciation of Buildings	54	10	–
,,	,, of Plant and Machinery	24	6	–
,,	Credit John Tough, Interest on Capital	54	4	–
,,	,, Joseph Tough, Interest on Capital	65	15	3
,,	Stocks of Materials on hand	4,822	16	6

Jan. 8. "Took Contract No. 128."
No entry is required for this in the Journal or Ledger, as it does not represent any transaction.

Jan. 9. "Materials supplied to date."
Debit each contract, by its number, with the value of materials supplied to it; and credit "Materials Account." Only one sum, the total of the four separate amounts, should appear as a credit.

Jan. 13. "Bought of Henry Brown for a two months Bill."

Be careful to note that this comprises two distinct transactions: (*a*) the purchase of the angles (iron castings), and (*b*) the acceptance of Brown's draft for the amount of his invoice.

"Drew cheque for wages paid this day."

Debit each contract with its own amount.

Jan. 27. "Received net proceeds Sale by Auction of Loose Plant Contract No. 126, value in books £350."

This sum of £350 is included in the value of Loose Plant as shown among the assets. The contract being completed, the plant used in executing the work was sold. The amount received should be credited to Plant Account, and the difference between the proceeds of sale and the original value debited to the contract, and likewise credited to Plant Account, for use and waste. The entry should be—

"Contract No. 126 *Dr.*
To Plant, Machinery, etc."

This is a variation of the method of charging the Depreciation of Plant to the Contract shown in the example in the preceding chapter.

Jan. 29. "Paid half-year's Interest on Mortgage."

This item leaves some room for variation in the method of dealing with it. The opening entries do not show that any interest on the mortgage was due, and it is contrary to custom to pay such interest in advance. It may, therefore, be assumed that the £300 paid was due, and the amount passed to debit of Interest Account.

This problem does not anticipate the allocation of General Expenses between the contracts. The gross profit or loss on the completed contracts must, therefore, be carried to Profit and Loss Account, which must be charged with the General Expenses.

EXERCISE 72

On 1st March, 19 . the affairs of Sidney Sycamore, Contractor, stood as follows—

Assets: Cash in Office, £160; Cash at Bank, £1,500; Bills Receivable, No. 20, £250, No. 21, £300; John Ash, £230 12s. 6d.; William Beech, £145 7s. 6d.; Contract 1—Expenditure to date, £2,100; Contract 2—Expenditure to date, £1,800; Freehold Premises, £10,000; Plant and Machinery, £5,200; Stock of Materials, £1,850.

Liabilities: Bills Payable, No. 25, £290, No. 26, £175; Henry Lime, £322 10s. 6d.; Thomas Oak, £148 9s. 6d.; Contract 1—Instalments received, £1,800; Contract 2—Ditto, £1,200.

His transactions for the month are given below. Enter them in the proper books; post them to the Ledger; and make out a Trial Balance, Profit and Loss Account, and Balance Sheet. All payments, unless otherwise stated, are made by cheque; all receipts are paid into the bank same day.

EXERCISE 72—(*contd.*)

19..			£	s.	d.
Mar.	1.	Received cheque for B/R No. 20, allowing Rebate	2	17	6
	,,	Signed Contract 3, to build Westland Bridge for	4,000	–	–
	2.	Bought Granite of Hy. Lime	315	5	6
	3.	Materials supplied to Contract 1	275	10	–
	,,	,, ,, ,, 2	150	15	6
	,,	,, ,, ,, 3	75	–	–
	4.	Paid Hy. Lime, cheque	122	10	6
	,,	And our acceptance at 1 month . . .	200	–	–
	6.	Received cheque from John Ash . . .	227	10	–
	,,	Discount in addition	3	2	6
	7.	Bought Bricks of Thos. Oak for 2 months' Bill	275	6	8
	8.	Contract 1. Instalment received . . .	500	–	–
	,,	,, 2. ,, ,, ...	250	–	–
	9.	Materials in yard destroyed by fire this day: Claimed upon Insurance Co. for . .	30	–	–
	,,	Received Wm. Beech's Acceptance . .	145	7	6
	10.	Paid Thos. Oak, cheque	146	–	–
	,,	Discount in addition	2	9	6
	11.	Contract 1. Paid Wages	110	14	6
	,,	,, 2. ,, ,, ...	140	7	4
	,,	,, 3. ,, ,, ...	48	3	4
	13.	Bought Cement of Henry Lime . . .	260	7	6
	14.	,, a Steam Crane from Vulcan & Co. for 2 months' Bill	520	10	–
	15.	Sent Office Cash to Bank	100	–	–
	16.	Materials supplied to Contract 1	215	8	2
	,,	,, ,, ,, 2	160	5	–
	,,	,, ,, ,, 3	255	12	6
	18.	Retired Bill Payable No. 25, with cheque for	288	15	–
	20.	Sales to John Ash	130	15	6
	21.	Discounted B/R No. 21 with the Bank for .	297	10	–
	22.	Paid for Small Repairs—Office Cash . .	4	12	6
	23.	Sidney Sycamore's Drawings	40	–	–
	24.	Contract 1. Paid Wages	150	10	2
	,,	,, 2. ,, ,, ...	100	8	4
	,,	,, 3. ,, ,, ...	125	10	6
	25.	Received cheque from Insurance Co. in full settlement of claim	25	–	–
	27.	Contract 1 completed: Final Instalment received	1,000	–	–
	28.	Contract 2 completed: Instalment received .	950	–	–
		A balance of £350 is held back as retention money on this Contract			
	30.	Paid for Stationery—Office Cash	3	10	6
	,,	,, Salaries	180	2	6
	31.	Bank allowed us Interest	6	3	4
	,,	Interest on Capital	81	13	4
	,,	Depreciation of Premises	20	–	–
	,,	,, of Plant and Machinery . .	45	–	–
	,,	Stock of Materials on hand	1,458	–	–

EXERCISE 73

On 1st January, 19.., the affairs of John Work stood as follows—

Cash at Bank, £1,800; Freehold Premises, £12,000; Plant and Machinery, £8,000; Stock of Materials, £4,300; Bills Receivable, No. 10, £220; No. 11, £350.

Debtors: A. Dane, £250 12s. 6d.; B. French, £375 7s. 6d.; Expenditure on current contracts: Contract No. 1, £2,000; Contract No. 2, £2,500.

Creditors: On Bills Payable, No. 25, £400; C. Dutch, £280 6s. 8d.; D. English, £310 13s. 4d.; Instalments received on current contracts: Contract No. 1, £1,500; Contract No. 2, £1,800.

His transactions for the month are given below.

You are requested to enter them in properbooks; post them to the Ledger; and make out a Trial Balance, Profit and Loss Account, and Balance Sheet.

All payments, unless otherwise stated, are made by cheque; all receipts are paid into the bank same day.

19..		£	s.	d.
Jan.	Signed Contract 3, to build St. Martin's Mission Hall for	5,000	–	–
,,	Drew cheque for Office Cash	40	–	–
2.	Received payment of B.R. No. 10 . .	220	–	–
	A fire at the yard destroyed Plant standing in the books at £300; a claim has been made on the Insurance Co. for that amount.			
3.	Contract 1. Materials supplied . .	350	10	6
,,	,, 2. ,, ,, . .	420	15	8
5.	Received of A. Dane in full discharge of his account as on 1st January . .	247	10	–
6.	Sold A. Dane, Materials	285	5	6
,,	Received of B. French	372	10	–
,,	Discount in addition	2	17	6
7.	Bill Receivable No. 11, being Hy. Smith's acceptance, retired by him under rebate with cheque for	347	2	6
8.	Donation to Hospital—Office Cash . .	5	5	–
,	Bought Materials of C. Dutch . .	450	–	–
9.	Posted our cheque to C. Dutch . .	277	–	–
,,	Discount in addition	3	6	8
10.	Contract 1. Paid Wages . . .	120	9	6
,,	,, 2. ,, ,, ...	140	4	4
12.	Sold Materials to B. French . . .	350	12	–
,,	Bought Stationery with Office Cash .	4	3	4
13.	John Work's Drawings	25	–	–
,,	Contract 2. Instalment received . .	700	–	–
,,	Retired our Acceptance No. 25 under rebate with cheque for . . .	396	15	–
14.	Contract 1. Instalment received . .	600	–	–
,,	Received A. Dane's acceptance at 2 mths.	150	–	–

EXERCISE 73—(*contd.*)

19..		£	s.	d.
Jan. 15.	Contract 1. Materials supplied	265	3	4
,,	,, 2. ,, ,,	275	7	6
16.	,, 3. ,, ,,	235	10	6
17.	,, 1. Paid Wages	110	16	8
,,	,, 2. ,, ,,	135	12	6
19.	Received B. French's acceptance at 1 mth.	175	6	–
,,	Paid D. English	305	10	–
,,	Discount in addition	5	3	4
20.	Sold some old Machinery for cheque	210	–	–
21.	Paid for small repairs to machinery—Office Cash	3	7	6
22.	Bought Materials from D. English	500	–	–
23.	Contract 1 completed: Final instalment received	1,300	–	–
24.	Contract 3. Paid Wages	50	–	–
26.	Gave D. English our acceptance at 3 mths.	250	–	–
27.	Contract 2 completed. Instalment received A balance of £500 is held back as retention money on this contract.	1,000	–	–
28.	Paid Water Rate with Office Cash	6	10	6
29.	Received from the Fire Insurance Co. in full settlement of our claim	280	–	–
30.	Paid Salaries	75	–	–
31.	Depreciation of Premises	20	–	–
,,	,, of Machinery	65	–	–
,,	Interest on Capital	115	–	–
,,	Stock of Materials on hand	3,202	3	10

CHAPTER XVIII

DISSOLUTION OF PARTNERSHIP

Dissolution of Partnership. There are several circumstances which give rise to the dissolution of partnerships, but it is unnecessary to trouble the student with them in a work of this nature. It is, however, most important that he should clearly grasp the provisions of the Partnership Act of 1890 as to the settlement of accounts between the partners after a dissolution. Section 44 of the Act provides that, in the absence of agreement to the contrary, upon a dissolution—

1. Losses, including losses of capital, shall be paid, first out of profits; secondly, out of capital if profits are insufficient, and, finally, if necessary, shall be contributed by the partners in the proportions in which they share profits.

2. The assets of the firm, including the contributions of partners to meet losses, if any, shall be applied in the following order—

   (1) In payment of the partnership debts.

   (2) In repaying to each partner rateably loans made by him to the firm.

   (3) In repaying to each partner rateably the sums respectively due to them as capital.

   (4) Any balance remaining shall be divided between and paid to the partners in the proportions in which they shared profits.

The records of the transactions arising through the settlement of accounts on a dissolution of partnership are entered in the books of accounts as follow—

1. A Realization Account is opened, to the debit of which all the assets are transferred with the exception of the cash, thus closing the asset accounts.

2. The cash realized by the sale of the assets is debited to the Cash Account and credited to Realization Account.

3. Cash is credited with the sums paid out in settlement of the amounts owing to the creditors, the creditors' accounts being debited.

4. Cash is credited with the payment of expenses incurred on realization, which are debited to Realization Account.

5. The balance now standing on the Realization Account will represent the profit or loss on realizing the assets. The balance must be struck and carried down on the account. It must then be divided between the partners in the proportion in which they share profits.

6. If a Balance Sheet were prepared at this point it would be found that the only asset is the balance of cash, and the only items on the liability side are the partners' Capital Accounts. The balances of the Capital Accounts, therefore, clearly represent their interest in the cash. Therefore, the cash must be paid in this proportion to them, the Cash Account being credited and the partners' Capital Accounts debited, thus closing the books.

If the partners held loans, these would be paid off and the accounts closed before the final payment of capital was made.

Example. A and B are in partnership, which they agree to dissolve on 31st December, 19... The following is their Balance Sheet on that date—

BALANCE SHEET AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	*Assets*	£	s.	d
Sundry Creditors .	700	–	–	Plant & Machinery	2,000	–	–
A—Capital A/c .	2,000	–	–	Stock . . .	900	–	–
B—Capital A/c .	1,000	–	–	Debtors . .	500	–	–
				Cash . . .	300	–	–
	3,700	–	–		3,700	–	–

A and B shared profits equally. The assets realized the following sums, viz. Plant and Machinery, £1,500; Stock, £800; Debtors, £500. The expenses of realization were £60.

Show the Realization Account, the Cash Account, and the partners' Capital Accounts recording the dissolution.

Dr. CASH ACCOUNT *Cr*

		£	s.	d.			£	s	d.
	To Balance . .	300	–	–		By Expenses of Realization . .	60	–	–
	„ Realization of Assets . .	2,800	–	–		„ Creditors . .	700	–	–
						„ A—Capital . .	1,670	–	–
						„ B—Capital . .	670	–	–
		3,100	–	–			3,100	–	–

Dr. REALIZATION ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Plant & Machinery	2,000	–	–	By Cash—Proceeds of Realization	2,800	–	–
„ Stock	900	–	–	„ Balance c/d	660	–	–
„ Debtors	500	–	–				
„ Expenses of Realization	60	–	–				
	3,460	–	–		3,460	–	–
To Balance b/d	660	–	–	By A—One half	330	–	–
				„ B—One half	330	–	–
	660	–	–		660	–	–

Dr. A—CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Loss on Realization	330	–	–	By Balance	2,000	–	–
„ Cash	1,670	–	–				
	2,000	–	–		2,000	–	–

Dr. B—CAPITAL ACCOUNT Cr.

	£	s.	d.		£	s.	d.
To Loss on Realization	330	–	–	By Balance	1,000	–	–
„ Cash	670	–	–				
	1,000	–	–		1,000	–	–

Goodwill. Goodwill is an intangible asset. It is the value of the trading connection of a business, or it may be described as the value of the probability that the old customers will continue to trade with the old firm.

Goodwill is usually valued on the basis of a certain number of years' purchase of the average profits of a fixed period. Matters which affect the value are: (1) the history of the business—whether profits are decreasing or increasing; (2) the nature of the business—whether it depends upon the personal ability of the proprietor or not; (3) the capital required and risk involved; (4) whether the trade is one in proprietary articles or patented goods; (5) situation of business—whether or not it occupies a good stand.

When a Goodwill has been created by a trader, or by partners in the course of building up a business, it does not usually appear in the books. But when the business is to be sold, or a new partner is to be introduced into the business, who will take a share of this asset, or when it is desired to

ascertain the value of a deceased partner's share, it is then necessary to create an account recording the value of the Goodwill.

The method by which it is recorded in the books is to debit a Goodwill Account with the value of the asset as agreed, and to credit the partners' Capital Accounts with this sum in the proportion in which they share profits or losses.

Introduction of a New Partner. When a new partner is admitted, he may be required to pay a "premium" for the privilege of joining the business and sharing the profits. This premium may be paid to the partners in the proportion in which they agree, and would not, in such a case, pass through the partnership books. If, however, the premium is to be left in the business, it would be credited to the partners' Capital Accounts from the Cash Book in the agreed proportions.

A more common practice is for a Goodwill Account to be raised and debited with the value agreed upon, which is credited to the old partners' accounts in the proportion in which profits and losses were shared. The new partner then pays in a sum agreed upon as his share of the capital, which is credited to his Capital Account. He subsequently shares the profits and losses in the ratio agreed upon between them.

Example. A and B are partners, who agree to admit C as a new partner. Their Balance Sheet is as follows—

BALANCE SHEET AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Creditors . .	600	–	–	Plant . . .	5,000	–	–
A—Capital . .	4,000	–	–	Stock . . .	1,000	–	–
B—Capital . .	3,000	–	–	Debtors . .	600	–	–
				Cash . . .	1,000	–	–
	7,600	–	–		7,600	–	–

A and B share profits equally. They agree to value the Goodwill on the basis of three years' purchase of five years' average profits, which amount to £600 per annum, and to admit C on equal terms upon the payment of £4,500 as capital.

Show the creation of the Goodwill Account, the partners'

Capital Accounts, and the Balance Sheet after the entries relating to C have been made in the books.

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			£	s.	d.	£	s.	d.
	Goodwill A/c . . *Dr.*		1,800	–	–			
	To Sundries—							
	A—Capital A/c . . .					900	–	–
	One-half share of goodwill							
	B—Capital A/c . . .					900	–	–
	One-half share of goodwill							
	Goodwill value = 3 years' purchase of 5 years' average profits = £600 × 3 = £1,800							
	Cash A/c . . . *Dr.*		4,500	–	–			
	To C—Capital A/c . .					4,500	–	–
	Sum agreed to be contributed as Capital by C. C to share equally with A and B in profits							

As C has been admitted on equal terms with A and B, they will each take one-third share of the profits or losses in future.

Dr. GOODWILL ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. Dec. 31	By Sundries .		1,800	–	–						

Dr. A—CAPITAL ACCOUNT *Cr.*

									£	s.	d.
						19.. Dec. 31	By Balance .		4,000	–	–
							,, Goodwill—½ Share .		900	–	–
									4,900	–	–

Dr. B—CAPITAL ACCOUNT *Cr.*

									£	s.	d.
						19.. Dec. 31	By Balance .		3,000	–	–
							,, Goodwill—½ Share .		900	–	–
									3,900	–	–

C—CAPITAL ACCOUNT

Dr.				19..			*Cr.* £	s.	d.
				Dec. 31	By Cash . .		4,500	–	–

BALANCE SHEET AT 31ST DECEMBER, 19..

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Creditors . .	600	–	–	Plant . . .	5,000	–	–
A—Capital . .	4,900	–	–	Goodwill . .	1,800	–	–
B— ,, . .	3,900	–	–	Stock . . .	1,000	–	–
C— ,, . .	4,500	–	–	Debtors . .	600	–	–
				Cash . . .	5,500	–	–
	13,900	–	–		13,900	–	–

Re-valuation of Assets. It sometimes happens, when a business is to be taken over, or a new partner is to be introduced, that a re-valuation of the assets is made with the object of transferring the business to the purchaser or to the new partnership at an equitable price. Certain capital assets may have been undervalued owing to heavy depreciation charges, whilst other assets may be over-stated. In such cases, it is necessary to adjust the values in the books and correspondingly to credit or debit the partners' Capital Accounts with the increase or decrease on the re-valuation. This is accomplished by means of a Capital Adjustment Account, which is credited with the increased values and debited with decreased values, the asset accounts being correspondingly debited and credited. The balance of the Capital Adjustment Account is then divided between the partners in the proportion in which they share profits and losses, and is transferred to their Capital Accounts.

Example. M and N are in partnership, and their Balance Sheet at 30th June, 19.., was as follows—

BALANCE SHEET AT 30TH JUNE, 19..

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Creditors . .	400	–	–	Plant . . .	4,000	–	–
M—Capital . .	5,600	–	–	Stock . . .	1,700	–	–
N— ,, . .	2,000	–	–	Debtors . .	1,600	–	–
				Cash . . .	700	–	–
	8,000	–	–		8,000	–	–

M and N shared profits in the proportion of three to one. They decide to admit P as a partner in consideration of his paying into the business the sum of £3,000 as capital. The Plant is to be re-valued at £5,000. The Stock is to be reduced by £200, and a Reserve of 10 per cent is to be made upon the debtors.

Give the Journal entries, recording these adjustments, the Capital Adjustment Account, and the opening Balance Sheet of the new firm.

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			£	s.	d.	£	s.	d.
	Plant A/c . . . *Dr.*		1,000	–	–			
	To Capital Adjustment A/c					1,000	–	–
	For increase on re-valuation							
	Capital Adjustment A/c. *Dr.*		360	–	–			
	To Sundries—							
	Stock A/c . . .					200	–	–
	For amount by which Stock is agreed to be written down							
	Reserve on Debtors .					160	–	–
	For 10% on £1,600 reserved on Debtors							
	Cash . . . . *Dr.*		3,000	–	–			
	To P—Capital A/c . .					3,000	–	–
	For sum paid in by him							
	Capital Adjustment A/c. *Dr.*		640	–	–			
	To Sundries—							
	M—Capital A/c . .					480	–	–
	For ¾ths of net increase on valuation							
	N—Capital A/c . .					160	–	–
	For ¼th of net increase on valuation							

Dr. CAPITAL ADJUSTMENT ACCOUNT *Cr.*

19..			£	s.	d.	19..			£	s.	d.
June 30	To Sundries .		360	–	–	June 30	By Plant A/c .		1,000	–	–
	" M—Capital A/c, ¾ths of balance .		480	–	–						
	" N—Capital A/c, ¼th of balance .		160	–	–						
			1,000	–	–				1,000	–	–

BALANCE SHEET AT 30TH JUNE, 19..

Liabilities		£	*Assets*		£
Creditors . . .		400	Plant . . .		5,000
M—Capital A/c	£5,600		Stock . . .		1,500
Add proportion of profit on re-valuation	480		Debtors .	£1,600	
		6,080	*Less* Reserve	160	
N—Capital A/c	£2,000				1,440
Add proportion of profit on re-valuation	160		Cash		3,700
		2,160			
P—Capital A/c . .		3,000			
		£11,640			£11,640

Purchase of Business. In the case of the purchase of a business at a valuation, the books of the vendor will be closed by transferring the assets to a Realization Account, as in a dissolution of partnership, and crediting that account with the sum agreed to be paid for the business by the purchasers. The surplus or deficiency on realization will be carried to the vendor's Capital Account, or, if the vendors are partners, to the partners' Capital Accounts in the proportion in which they share profits or losses. The appropriation of the cash then closes these latter accounts.

In the books of the purchasers, it will be necessary to create accounts for each of the assets taken over, which will be debited with the value put upon them. The vendor will be credited with the purchase price and debited with the payments made to him, whilst the purchasing partners' Capital Accounts will be credited with the cash paid in by them respectively.

Example. X, a sole trader, agrees to sell his business to L and S on the following terms—

The purchase price is fixed at £5,700, which is made up thus—

	£
Plant	2,000
Debtors	1,000
Stock	1,200
Goodwill	1,500
	£5,700

X agrees to allow £2,000 to remain with the new firm on loan at 5 per cent. L and S contribute £4,000 and £2,000 respectively as their Capitals in the new business.

Show the Journal entries recording these transactions, and the Vendor's Account as they will appear in the purchasers' books, and give the opening Balance Sheet of L and S.

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		£	s.	d.	£	s.	d.
Sundries . . . . *Dr.*							
To Vendor's A/c . .					5,700	–	–
Plant		2,000	–	–			
Debtors. . . .		1,000	–	–			
Stock		1,200	–	–			
Goodwill . . .		1,500	–	–			
For purchase price of business as agreed							
Cash . . . . *Dr.*		6,000	–	–			
To Sundries—							
L—Capital A/c . .					4,000	–	–
S— ,, ,, . .					2,000	–	–
For sums paid in as Capital							
Vendor's A/c . . *Dr.*		3,700	–	–			
To Cash					3,700	–	–
For sum agreed to be paid on account of purchase							
Vendor's A/c . . *Dr.*		2,000	–	–			
To X—Loan A/c . .					2,000	–	–
Amount transferred as agreed, X to receive 5% interest on this sum per annum							

Dr. VENDOR'S ACCOUNT *Cr.*

			£				£
	To Cash .		3,700		By Sundries .		5,700
	,, X Loan A/c		2,000				
			£5,700				£5,700

BALANCE SHEET

Liabilities	£	s.	d.	*Assets*	£	s.	d.
X—Loan A/c. .	2,000	–	–	Plant . . .	2,000	–	–
L—Capital . .	4,000	–	–	Goodwill . .	1,500	–	–
M—Capital . .	2,000	–	–	Stock . . .	1,200	–	–
				Debtors . .	1,000	–	–
				Cash . . .	2,300	–	–
	£8,000	–	–		£8,000	–	–

It is improbable that a Goodwill Account would exist in the books of X. For the purpose of closing them, it is quite unnecessary to create such an account. The Realization Account will be credited with the full purchase price, viz. £5,700; and the profit arising by the creation and sale of the Goodwill will automatically be credited to X's Capital Account, when the balance of the Realization Account is transferred there.

Guarantee of Old Debts. In such an instance as the example given above, it is probable that the purchasers would require a guarantee from X that the debtors were good, and that he would make good all debts which the partners were unable to collect.

If, therefore, any of the debts proved to be bad, the debtors' accounts would be credited and X's Guarantee Account would be debited with the amounts which could not be collected. This account could be settled either by the payment of cash to the firm by X, or by transferring the amount to the debit of his Loan Account.

SUMMARY

1 DISSOLUTION OF PARTNERSHIP ACCOUNTS—

(*a*) Transfer all assets, excepting cash, to Realization Account.

(*b*) Credit this account with proceeds of sale of assets.

(*c*) Debit the account with expenses of realization.

(*d*) Transfer balance to partners' Capital Accounts in proportion in which they shared profits and losses.

(*e*) Repay partners' loans out of cash.

(*f*) Repay partners' balance of capital out of cash, after any sums due from partners have been received.

2. INTRODUCTION OF PARTNER—

(*a*) Create Goodwill Account by debiting value agreed upon to Goodwill, and crediting old partners' Capital Accounts in proportion in which they shared profits.

(*b*) Credit new partner's Capital Account with amount of capital paid in.

(*c*) If premium is paid into the business, credit it to old partners' Capital Accounts in proportion in which profits are shared.

3. Re-valuation of Assets—

(*a*) Credit under-valuations and debit over-valuations to Capital Adjustment Account, debiting and crediting respective assets accounts.

(*b*) Apportion balance of Capital Adjustment Account between partners' Capital Accounts in proportion in which they shared profits and losses.

4. Purchase of Business—

In Purchasers' Books :

(*a*) Credit Vendor's Account with value of assets taken over, and debit it with liabilities to be met.

(*b*) Debit asset accounts with values as credited to Vendor's Account, and credit the creditors' accounts with liabilities taken over.

(*c*) Debit Vendor's Account with purchase price of business when paid.

In Vendor's Books :

(*a*) Debit Realization Account with value of assets as they stand in the books, crediting the accounts of the assets, thus closing them.

(*b*) Credit Realization Account with cash, etc., received from sale.

(*c*) Transfer balance of Realization Account to Vendor's Capital Account, and transfer balance of cash, etc., to this account to close both cash and capital accounts.

EXERCISE 74

Fox & Crane were partners whose Balance Sheet at 31st December, 19.., showed the following Assets and Liabilities, viz.—

Assets : Buildings, £3,000; Plant, £7,000; Stock, £2,000; Debtors, £1,500; Cash, £200.

Liabilities : Creditors, £4,000; Fox: Capital, £6,700; Crane: Capital, £3,000.

Fox & Crane shared profits in the proportion of 2 to 1. They decided to dissolve partnership. The assets realized the following sums, viz.: Buildings, £1,500; Plant, £4,000; Stock, £1,600; Debtors, £1,200. The expenses of realization were £150.

Show the accounts recording the realization of the assets and the winding-up of the partnership in the books of Fox & Crane.

EXERCISE 75

Lemon & Marks were in partnership. Their Balance Sheet was as follows—

Balance Sheet at 31st December, 19..

Liabilities		£	*Assets*	£
Creditors		600	Plant	2,000
Lemon—Capital	£3,000		Stock	1,800
Marks—Capital	2,000		Debtors	1,200
		5,000	Cash	600
		£5,600		£5,600

The partners shared profits in proportion to their capitals. They decided to admit Robins as a partner on the following conditions, viz.: A Goodwill Account for £2,000 was to be raised, and Robins was to pay into the business the sum of £2,000. Profits were to be shared in proportion to Capital. The net profits of the year following the introduction of Robins, after making all charges, were £4,500.

You are required to show in the books the entries necessary to record (1) the creation of the Goodwill; (2) the introduction of Robins's Capital; (3) a Balance Sheet at the close of the first year of the new partnership, showing the allocation of the profit between the partners.

EXERCISE 76

Jones & Thompson shared capital and profits equally. Their assets were: Plant, £3,500; Fixtures, £1,700; Stock, £1,500; Debtors, £1,000; Cash, £1,200. Their liabilities were £600.

They resolved to re-value the assets and to create a Goodwill Account. The result of the re-valuation was: Plant, £4,500; Fixtures, £1,300; Stock, £1,200; Debts, £900; Goodwill, £1,800.

Give effect to the re-valuation in the partnership books, and prepare a Balance Sheet showing the position of the partnership after the re-valuation.

EXERCISE 77

William Draper agreed to sell his business to Hose & Holland. The new firm took over the assets at the following valuation, viz.: Shop Buildings, £4,000; Fixtures, £1,000; Stock, £3,000; Book Debts, £500. They agreed to pay the creditors of Draper, to whom £1,200 was due. Hose & Holland contributed the Capital necessary for the purchase in equal proportions.

Show the opening entries in the books of the new firm.

EXERCISE 78

Lancashire and Cheshire Union

W. Lone and T. Stanley are trading as partners in the firm of Lone, Stanley & Co., profits being shared as follows—

W. Lone, two-thirds; and T. Stanley, one-third.

The following is the Balance Sheet of Lone, Stanley & Co. as at 31st December, 19..—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
W. Lone, Capital A/c	2,000	–	–	Cash . . .	200	–	–
T. Stanley, ,,	1,800	–	–	Sundry Assets .	27,600	–	–
Sundry Creditors .	24,000	–	–				
	27,800	–	–		27,800	–	–

On the 1st January, 19.., they admit M. Maxwell as a partner on the following terms—

(*a*) Profits are to be divided as to three-sixths to W. Lone, two-sixths to T. Stanley, and one-sixth to M. Maxwell.

(*b*) M. Maxwell to bring in £1,000 as his capital.

(*c*) A goodwill account is to be raised for £1,800, this sum to be credited to the old partners.

(*d*) W. Lone is at liberty to withdraw £400 of his capital on 1st January, 19...

(*e*) M. Maxwell to have a salary of £400 per annum out of profits.

(*f*) Interest to be allowed on partners' Capital Accounts at the rate of 5% per annum. No interest on ordinary drawings to be taken into account. Each partner is at liberty to draw £40 a month in anticipation of profits (in the case of M. Maxwell, the £40 is in anticipation of profits and salary).

Assume that all transactions mentioned above have been carried out. The profits for the year ended the 31st December, 19.., before making any allowance for M. Maxwell's salary or for interest on partners' capital, amounted to £2,510.

Show the partners' Capital Accounts at the close of the year.

EXERCISE 79

ROYAL SOCIETY OF ARTS

The following Trial Balance was extracted from the books of MacAdam & Westrum on 31st December, 19...

TRIAL BALANCE

	£	s.	d.	£	s.	d.
Angus MacAdam (Capital A/c) .				6,000	–	–
John Westrum (Capital A/c) .				2,000	–	–
Angus MacAdam (Drawing A/c) .	1,000	–	–			
John Westrum (Drawing A/c) .	300	–	–			
Land and Buildings . . .	4,960	–	–			
Plant and Machinery . . .	1,036	10	–			
Stock—1st January, 19.. . .	2,019	3	7			
Debtors and Creditors . .	1,596	15	–	1,362	13	3
Reserve for Doubtful Debts .				66	3	–
Purchases and Sales . . .	9,284	1	6	14,274	6	6
Returns Inwards	370	2	–			
,, Outwards				870	2	–
General Expenses	150	6	–			
Manufacturing Wages. . . .	2,001	15	7			
Rates and Taxes	167	4	9			
Insurance	66	9	7			
Manufacturing Expenses . .	225	10	4			
Salaries	666	8	–			
Discount Account	39	4	1	29	18	8
Cash in hand	64	3	8			
,, at Bank	655	9	4			
	£24,603	3	5	£24,603	3	5

The Partnership Agreement provides—

1. That 5% per annum shall be allowed upon Partnership Capital (as a charge to the Profit and Loss Account), and that such interest shall be credited to the Partners' Drawing Accounts.

2. That a Partnership Salary out of Net Profits (if and as made) of £300 per annum shall, in the first instance, be credited to Mr. Westrum's Drawing Account.

3. That the Net Profit (if any), after providing for the aforesaid Partner's Salary, shall be divided between the Partners *pro rata* to the amounts at the credit of their Capital Accounts, and shall be credited to their Drawing Accounts.

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date, subject to the following adjustments—

Depreciation is to be charged as follows—

2½% on Land and Buildings.

10% on Plant and Machinery.

The Reserve for Doubtful Debts is to be increased to 5% on the Sundry Debtors.

The unexpired portions of the following expenses are to be carried forward—

	£	s.	d.		£	s.	d.
Rates . .	27	1	9	Insurance . .	16	7	0

The Stock on hand on 31st December, 19.., was agreed at the value of £1,991 7s. 6d.

CHAPTER XIX

JOINT STOCK COMPANIES

THE law relating to Joint Stock Companies was amended and consolidated in the Companies Act, 1929. This Act introduced many new provisions in the law relating to Companies. Briefly, it sets out the circumstances in which a Company may be formed so that the liability of its members for its debts is limited to the amount of Capital for which they agree to subscribe individually, the terms and conditions which apply to the issue of its Share Capital and Debentures, the general management and administration during its lifetime, the keeping of its accounts and the issue of its Balance Sheets, and the law covering its dissolution or " winding up."

The Act provides that a Company may be formed by any seven or more persons, or, in the case of a " Private Company," by any two or more persons, by subscribing their names to a *Memorandum of Association*, and otherwise complying with the requirements of the Act. The Company may be " a company limited by shares," " a company limited by guarantee," or, " an unlimited company."

Certain companies may be formed by Special Act of Parliament; but the vast majority of companies operating to-day are companies which are limited by shares and governed by the Act of 1929, and this is the only type of company with which the student need concern himself for the time being.

The *Memorandum of Association* referred to above is the charter or rules of the company governing its relation to the outside world. In every case the Memorandum must state—

(1) The name of the Company with the word " limited " as the last word in its name;

(2) the situation of its Registered Office;

(3) the objects of the Company;

(4) the amount of its Share Capital and the division into Shares of a fixed amount.

Supplementary to this come the *Articles of Association* which provide for the internal administration of the company, is

and the rules which are to apply as between the members of the company themselves.

A Limited Company may be either a private or a public company.

A Private Company is one which by its Articles—

(*a*) Restricts the right to transfer its shares;

(*b*) limits the number of its members (not including persons in the employment of the company and ex-employees) to fifty;

(*c*) prohibits any invitation to the public to subscribe for any of its shares or debentures.

The minimum number of members required is two.

A Public Company is one which obtains its capital from the general public, and it must consist of at least seven members.

When a Public Company is "floated," the procedure is along the following lines—

The "promoters" (i.e. the persons responsible for the formation of the company) issue a *prospectus* of the proposed new company. The prospectus sets forth the terms upon which the company is formed, and its prospects of success, and invites the public to subscribe for the shares upon the conditions stated therein. In order to protect the public the Act lays down very comprehensive rules as to the issue and registration of the prospectus, and as to what it must disclose, so that all material facts shall be available to the intending subscriber for shares.

Accompanying the prospectus is an *Application Form*, which the intending subscriber must fill up, sign, and forward, along with a cheque for the sum payable on application, to the company or its bankers. Attached to the application form is a blank form of receipt, which the company (or its bankers) fill up, sign, and return to the applicant.

When the applications have been received, the Secretary of the company enters the particulars contained on each form in the "Application and Allotment Book," which is ruled to receive the necessary information.

The *Directors* of the company then meet and proceed to "allot" the shares to the applicants as their discretion dictates. The secretary forwards to the allottees an "Allotment etter" (upon which is an impressed 6d. stamp if the nominal 'ue of the shares is £5 or more), stating the number of shares

allotted and the amount due on allotment, which the allottee (now the *shareholder*) must remit, and in exchange receive an *allotment receipt*. The secretary then proceeds to make the necessary entries of allotment in the Application and Allotment Book, and to open the shareholders' accounts in the *Share Register*, debiting them with the amounts due and crediting them with the cash received. Subsequently, the Directors proceed to make " Calls " on the shares, in accordance with the terms of the prospectus, notice of which is served upon the shareholders, who remit the amounts due and receive *Call Receipts*. The secretary enters up in a *Call Book* the amount due and received from each shareholder on account of the Calls, which are kept distinct from one another in the Call Book. The company then issues *Share Certificates* within the time prescribed by the Act after allotment, which are exchanged for the Application, Allotment, and Call Receipts held by the shareholders.

From the information contained in the Application and Allotment and Call Books, the *Share Register* is compiled. This book contains a complete record of the names, addresses, and occupations of the shareholders, the shares held by them, distinguished by their numbers, the amounts " called up " on the shares, and the amounts " paid up " thereon. The Share Register is a statistical book, and does not form any part of the books of account necessary for the double-entry bookkeeping. It is, nevertheless, a most important book, and one which every Joint Stock Company is legally compelled to keep.

If a shareholder wishes to dispose of his shares to another person he does so by filling up a *Transfer Form* bearing the requisite stamp duty impressed upon it, the transfer form being signed by both the transferor and the transferee. This form is forwarded to the company along with the Share Certificate. The secretary obtains the sanction of the Directors to the transfer, records the transfer in the *Register of Transfers*, issues a fresh Share Certificate to the new shareholder, and makes the necessary transferring entries in the Share Register.

The *Nominal Share Capital*, or *Authorized Share Capital*, of a company is the amount the company is empowered by its Memorandum of Association to issue.

The *Subscribed Share Capital*, or *Issued Share Capital*, is

the face value of that portion of the Nominal Capital which has actually been subscribed for and issued to the public.

The *Paid-up Share Capital* is the amount actually paid up by shareholders, in pursuance of calls, on the Subscribed Capital.

It must be observed that, like the Share Register, the Application and Allotment Book, Call Book, and Register of Transfers do not constitute an integral part of the financial books of the company. They are merely Statistical or Memorandum Books.

The transactions arising out of the matters just described are recorded in the financial books of the company as follows—

1. An *Application and Allotment Account* is opened and debited with the total amount due on (*a*) application, and (*b*) allotment, the figures being derived from the totals of the Application and Allotment Book. The corresponding credits are made in a *Share Capital Account.*

2. The cash received on application and allotment is debited to the Cash Book and credited to the Application and Allotment Account.

3. As each call is made, a First, Second, Third, etc., *Call Account* is debited with the total amount due on the respective calls, as ascertained from the Call Book, and the Share Capital Account credited with corresponding amounts.

4. The cash received on each call is separately debited to the Cash Book and credited to the appropriate Call Accounts.

All the above entries, with the exception of the cash, must in every case be recorded in the Journal. The Application and Allotment, and the Call Accounts, are summarized *personal* accounts, the Share Capital Account being the corresponding *impersonal* account.

Debit balances remaining on the Application and Allotment Account, and the Call Accounts represent *Calls in Arrear* due from shareholders, and they should agree with the total of the debit balances shown in the detailed accounts of the shareholders in the Share Register.

The following example will show how the transactions should be recorded in the company's financial books—

The A B Co., Ltd., is formed with a Nominal Capital of £50,000 divided into 50,000 shares of £1 each. On 1st May, 19.., 40,000 shares are applied for, and are allotted on 10th May, 19... The amount due on application was 2s. 6d. per

share, and on allotment a further 2s. 6d. per share is due. On 1st June, 19.., the first call was made at the rate of 5s. per share, and on 1st September, 19.., a second call was made, also at the rate of 5s. per share. All the calls were met with the exception of the amount due on Second Call on 1,000 shares.

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				£	s.	d.	£	s.	d.
19.. May	1	Application and Allotment A/c . . . *Dr.*	2	5,000	–	–			
		To Share Capital A/c .	1				5,000	–	–
		Amount due on application for 40,000 shares at 2s. 6d. per share							
	10	Application and Allotment A/c . . . *Dr.*	2	5,000	–	–			
		To Share Capital A/c .	1				5,000	–	–
		Amount due on allotment of 40,000 shares at 2s. 6d. per share							
June	1	First Call A/c . . *Dr.*	3	10,000	–	–			
		To Share Capital A/c .	1				10,000	–	–
		Amount due on 1st call of 5s. per share on 40,000 shares							
Sept.	1	Second Call A/c . *Dr.*	4	10,000	–	–			
		To Share Capital A/c .	1				10,000	–	–
		Amount due on 2nd call of 5s. per share on 40,000 shares							

Dr. CASH BOOK *Cr.*

			£	s.	d.				£	s.	d.
19.. May 1	To Application & Allotment A/c . Cash received on application	2	5,000	–	–	19.. Sept. 30	By Balance c/d .		29,750	–	–
20	To Application & Allotment A/c . Cash received on Allotment	2	5,000	–	–						
June 20	To First Call A/c. Cash received on First Call	3	10,000	–	–						
Sept. 30	To Second Call A/c Cash received on Second Call .	4	9,750	–	–						
			29,750	–	–				29,750	–	–
19.. Oct. 1	To Balance b/d .	√	29,750	–	–						

(1)

SHARE CAPITAL ACCOUNT

Nominal Capital, 50,000 Shares of £1 Each

Dr.			£	s.	d.	19..	Cr.		£	s.	d.
						May 1	By Application & Allotment A/c .	J.	5,000	–	–
						10	,, ,, ,,	J.	5,000	–	–
						June 1	,, First Call A/c	J.	10,000	–	–
						Sept. 1	,, Second Call A/c . .	J.	10,000	–	–
									30,000	–	–

(2)

APPLICATION AND ALLOTMENT ACCOUNT

Dr. 19..			£	s.	d.	19..	Cr.		£	s.	d.
May 1	To Share Capital A/c . .	J.	5,000	–	–	May 1	By Cash . .	C.B.	5,000	–	–
10	,, Share Capital A/c . .	J.	5,000	–	–	20	,, ,, . .	C.B.	5,000	–	–
			10,000	–	–				10,000	–	–

(3)

FIRST CALL ACCOUNT

Dr. 19..			£	s.	d.	19..	Cr.		£	s.	d.
June 1	To Share Capital A/c . .	J.	10,000	–	–	June 20	By Cash . .	C.B.	10,000	–	–

(4)

SECOND CALL ACCOUNT

Dr. 19..			£	s.	d.	19..	Cr.		£	s.	d.
Sept. 1	To Share Capital A/c . .	J.	10,000	–	–	Sept. 30	By Cash . .	C.B	9,750	–	–
						,,	,, Balance c/d .	√	250	–	–
			10,000	–	–				10,000	–	–
19.. Oct. 1	To Balance b/d .	√	250	–	–						

If the foregoing were the only transactions of the company up to 30th September, 19.., the Balance Sheet at that date would read as shown on page 193.

Observe that the Nominal Capital of the company is stated both in the Share Capital Account and in the Balance Sheet by way of a memorandum, and that the "Calls in Arrear" are deducted from the Subscribed Capital, showing the net amount of capital received.

Calls in Advance. The Articles of Association of most companies give power to the Directors to receive the amounts due on shares issued, in advance of the time when the actual call

BALANCE SHEET AT 30TH SEPTEMBER, 19..

Liabilities		£	*Assets*	£
Nominal Capital— 50,000 shares of £1 each	£50,000		Cash	29,750
Subscribed Capital— 40,000 shares of £1 each, 15s. per share called up .	£30,000			
Less Calls in Arrear	250			
		29,750		
		29,750		29,750

is made, and to pay interest upon such payments in advance at a specified rate.

When payments are made under this authority in advance of calls, they are credited to a " Calls in Advance Account," and, as the calls are made from time to time, the sums due under the calls are transferred from the Calls in Advance Account to the respective Call Accounts. Interest, of course, ceases on the due date of the Calls.

The balance standing on the Calls in Advance Account is shown by an addition to the Subscribed Capital Account in the Balance Sheet, thus—

	£	£
SUBSCRIBED CAPITAL—		
100,000 Shares of £2 each, 10s. called up .	50,000	
Less Calls in Arrear	1,000	
	49,000	
Add Calls paid in advance	2,500	
		51,500

Classes of Shares. Shares are divided into various classes, and the terms applied to them vary according to the " rights " to which they are entitled. The following are some of the terms employed, viz.—

Ordinary Shares are those which are entitled to the profits of the company after all prior rights have been satisfied.

Preference Shares are those which entitle the holders to be paid a dividend at a fixed rate out of the profits of any one year in preference to, or before a dividend is paid to other shareholders not possessing prior rights. Preference shares may also give a preferential right to the holders to be repaid the capital they have contributed in priority to other shareholders in the event of the dissolution of the company.

Cumulative Preference Shares are those which entitle the holders to be paid any arrears of dividend before any distribution is made to other shareholders not possessing prior rights.

Pre-preferential Shares entitle the holders to a dividend at a fixed rate in priority to the preference and other shareholders.

Participating Preference Shares are those which not only confer a right to a preferential dividend, but also entitle the holders to share in the surplus profits after a certain fixed dividend has been paid to the ordinary shareholders.

Redeemable Preference Shares. The Act of 1929 authorizes for the first time the issue of Preference Shares which are redeemable. They can, however, only be redeemed if they are fully paid, and only out of accumulated divisible profits of the company, or out of the proceeds of a fresh issue of shares made for the purposes of the redemption. If redeemed out of profits, the amount of the profits so used has to be transferred to "the Capital Redemption Reserve Fund," which Fund cannot be drawn upon for the purpose of paying dividends. No other class of shares is redeemable.

Deferred and Founders' Shares are those which rank for dividend *after* the dividend to which the preference and ordinary shareholders are entitled has been paid. They are usually issued to the promoters or founders of the company in payment for services rendered or expenses incurred in forming the company. They are often small in amount and few in number, and take the whole or a fixed portion of the surplus profits after dividends at a fixed rate have been paid on the preference and ordinary shares.

Shares Issued at a Discount. Before the Act of 1929 no company could legally issue shares at a discount. It had to have the right to require its members to pay up in full, if necessary, the whole nominal amount of the shares subscribed for by them. But, now, after the elapse of a year from the

date the company was entitled to commence business, shares may be issued at a discount, provided the issue is authorized by a general meeting of the company and sanctioned by the Court.

Shares Issued for Consideration other than Cash. It is not essential that shares should always be paid for in cash. They may be allotted for a "consideration other than cash," such as for services rendered, or for the transfer of assets. In such cases, the treatment of the issue of the shares in the books of the company differs from that outlined above. They do not pass through the Application, Allotment, and Call Accounts, as do shares issued for cash; but a personal account is opened in the name of the person to whom the issue is made, and this account is credited with the amount of the consideration, the debit being made in an appropriate Real or Nominal Account, according to the nature of the consideration. The personal account is then debited with the value of the shares allotted, and Share Capital Account credited.

The following example will illustrate—

The A B Co., Ltd., whose books we have just opened, was formed to take over the business of William White, draper. The purchase price of the business was agreed at £20,000, payable one-half in fully paid-up shares, and one-half in cash. White's assets comprise: Buildings, £6,000; Fixtures, £1,000; Debtors, £1,000; Stock, £9,000; and he owes £2,000. The transfer took place on 1st October, 19...

It will be observed that White's assets exceed his liabilities by £15,000, whereas the purchase price is £20,000. The excess of £5,000 must, therefore, be assumed to represent Goodwill.

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			£	s.	d.	£	s.	d.
19..								
Oct. 1	Sundries . . . *Dr.*							
	To Vendor's Account .	11				22,000	–	–
	Buildings	5	6,000	–	–			
	Fixtures	6	1,000	–	–			
	Sundry Debtors (posted in detail)	9	1,000	–	–			
	Stock	7	9,000	–	–			
	Goodwill	8	5,000	–	–			
	Being the value of the assets transferred to the Company							

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			£	s.	d.	£	s.	d.
19.. Oct. 1	Vendor's Account . *Dr*	11	2,000	–	–			
	To Sundry Creditors (posted in detail) .					2,000	–	–
	Liabilities taken over by the Company on the transfer of the business							
	Vendor's Account . *Dr.*	11	10,000	–	–			
	To Share Capital A/c .	1				10,000	–	–
	For 10,000 fully paid-up shares of £1 each, allotted in part-payment of purchase money							

After posting the Journal entries and the record of the cash payment to the Ledger, the accounts in the books of the company will read as follows—

(1)

Dr. SHARE CAPITAL ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
						19.. Sept. 30	By Balance .	√	30,000	–	–
						Oct. 1	„ Vendor's A c .	J.	10,000	–	–
									40,000	–	–

Dr. CASH BOOK *Cr.*

			£	s.	d.				£	s.	d.
19.. Sept. 30	To Balance .	√	29,750	–	–	19.. Oct. 1	By Vendor's A/c: Part payment of purchase price .	11	10,000	–	–
						„	By Balance c/d .	–	19,750	–	–
			29,750	–	–				29,750	–	–
19.. Oct. 1	To Balance b/d .	√	19,750	–	–						

(5)

Dr. BUILDINGS ACCOUNT *Cr.*

			£	s.	d.						
19.. Oct. 1	To Vendor's A/c .	J.	6,000	–	–						

(6)

Dr. FIXTURES ACCOUNT *Cr.*

			£	s.	d.						
19.. Oct. 1	To Vendor's A/c .	J.	1,000	–	–						

(7)

STOCK ACCOUNT

Dr.			£	s	d.				£	s.	d. Cr.
19.. Oct. 1	To Vendor's A/c .	J.	9,000	–	–						

(8)

GOODWILL ACCOUNT

Dr.			£	s	d.				£	s.	d. Cr.
19.. Oct. 1	To Vendor's A/c .	J.	5,000	–	–						

(9)

SUNDRY DEBTORS

Dr.			£	s	d.				£	s.	d. Cr.
19.. Oct. 1	To Vendor's A/c .	J.	1,000	–	–						

(10)

SUNDRY CREDITORS

Dr.			£	s.	d.				£	s.	d. Cr.
						19.. Oct. 1	By Vendor's A/c .	J.	2,000	–	–

(11)

VENDOR'S ACCOUNT (WM. WHITE)

Dr.			£	s.	d.				£	s.	d. Cr.
19.. Oct. 1	To Sundry Creditors .	J.	2,000	–	–	19.. Oct. 1	By Sundries .	J.	22,000	–	–
,,	,, Share Capital A/c .	J	10,000	–	–						
,,	,, Cash .	C.B	10,000	–	–						
			22,000	–	–				22,000	–	–

The Balance Sheet of the A B Co., Ltd., would then read as shown on p. 198.

Debentures. Debentures are acknowledgments of indebtedness given under the seal of a company, setting forth the conditions of the loan, the rate of interest payable, and the terms of repayment of the sums advanced.

Debentures are divisible into the following classes, viz.—

1. *Naked Debentures*, which are entirely *unsecured* by any charge or mortgage of assets.

2. *Mortgage Debentures*, i.e. those which are *secured* by a charge on the company's assets. The charge may be a—

(*a*) Floating Charge, i.e. a charge on the whole of the assets, or

BALANCE SHEET—1st October, 19..

Liabilities		£	*Assets*	£
Nominal Capital— 50,000 shares of £1 each	£50,000		Goodwill at cost . .	5,000
			Buildings at cost .	6,000
			Fixtures at cost . .	1,000
			Stock . . .	9,000
Subscribed Capital— 10,000 shares of £1 each, issued as fully paid-up .	£10,000		Debtors . . .	1,000
40,000 shares of £1 each, 15s. per share called up.	£30,000		Cash	19,750
50,000	40,000			
Less Calls in arrear .	250			
		39,750		
Sundry Creditors . .		2,000		
		41,750		41,750

(*b*) Fixed Charge, i.e. a mortgage of some particular asset, e.g. buildings.

These debentures may be subdivided into—

1. *Registered Debentures*, which means that the holder's name must be registered in the Register of Debentures of the company, and that all transfers of the debentures must be effected by means of a duly stamped and executed Transfer Deed, which is deposited along with the Debenture Scrip with the company. The company thereupon records the transfer in its books, registers the name of the new holder, and issues to him a new Debenture Scrip made out in his name.

2. *Bearer Debentures*, i.e. those which are made out to "bearer" and which do not require to be registered in the name of the holder in the company's books, the original entry at the time of issue being sufficient. Such Debentures or Debenture Bonds are transferable by delivery, and the transfer need not be notified to the company.

In the case of Registered Debentures, the interest on them is paid to the person registered as the holder in the company's

books on the day on which the interest is due, by means of an Interest Warrant, which is similar in nature to a cheque.

The interest upon Bearer Debentures is paid by means of coupons attached to the Debenture Bond, which the holder detaches upon the due date and presents to the bank named upon them for payment.

Debentures do *not* form any part of the Share Capital of a company. They are merely secured or unsecured loans to the company repayable on certain terms.

They may be issued at a "premium," i.e. for a sum in excess of their face or nominal value. E.g. Debentures of £100 each may be issued at a price of £105 for every £100. They are then said to be issued at a premium of 5 per cent.

Debentures may also be issued at a discount, i.e. at a sum less than their face value. E.g. £100 Debenture for £95. In such cases they are usually repayable either "at par" (i.e. face value), or at a premium (i.e. in excess of face value).

Issue of Debentures. The recording of an issue of debentures is very similar to that of an issue of shares. The Debenture Account is credited with the instalments due from time to time, and Application and Allotment Accounts and Instalment Accounts are correspondingly debited, the Instalment Accounts taking the place of the Call Accounts. The amount received from the allottees is debited to Cash Account and credited to the Application, Allotment, and Instalment Accounts. When the Debentures are fully paid, Scrip or Bonds for their amounts are issued to the registered holders.

The following example will illustrate the issue of Debentures at a discount, showing how the entries relating thereto are made in the books.

Example. The Brown Tile Co., Ltd., offer for subscription £50,000 Debentures at a discount of 10 per cent on 1st February, 19... Instalments are due as follow—

	%
On application	£10
,, allotment	30
,, 1st March, 19.. . . .	20
,, 1st April, 19..	30
	£90

The whole of the Debentures were applied for and allotted on 7th February, 19.., and all the instalments were duly paid.

Show the records of the issue in the books of the company.

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			£	s.	d.	£	s.	d.
19.. Feb. 7	Application Account . *Dr.* To Debentures Account . Sum due on application for £50,000 Debentures at 10%		5,000	–	–	5,000	–	–
,,	Allotment Account . *Dr.* To Debentures Account . Sum due on allotment of £50,000 Debentures at 30%		15,000	–	–	15,000	–	–
Mar. 1	Debenture Holders (First Instalment A/c) . *Dr.* To Debentures Account . Sum due this date on £50,000 Debentures at 20%		10,000	–	–	10,000	–	–
Apr. 1	Debenture Holders (Second Instalment) A/c . *Dr.* To Debentures Account . Sum due this date on £50,000 Debentures at 30%		15,000	–	–	15,000	–	–
,,	Discount on Debenture Issue . . . *Dr.* To Debentures Account . Being Discount of 10% on issue of £50,000 Debentures		5,000	–	–	5,000	–	–

Dr. CASH ACCOUNT *Cr.*

			£	s.	d.						
19.. Feb. 7	To Debenture Applications A/c		5,000	–	–						
,,	,, Debenture Allotment A/c .		15,000	–	–						
Mar. 1	,, First Instalment A/c .		10,000	–	–						
Apr. 1	,, Second do. .		15,000	–	–						
			45,000	–	–						

Dr. APPLICATION ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. Feb. 7	To Debentures A/c		5,000	–	–	19.. Feb. 7	By Cash . .		5,000	–	–

Dr. ALLOTMENT ACCOUNT *Cr.*

			£	s.	d.				£	s.	d.
19.. Feb. 7	To Debentures A/c		15,000	–	–	19.. Feb. 7	By Cash . .		15,000	–	–

Dr. DEBENTURE HOLDERS—FIRST INSTALMENT A/C *Cr.*

			£	s.	d.				£	s.	d.
19.. Mar. 1	To Debentures A/c		10,000	–	–	19.. Mar. 1	By Cash . .		10,000	–	–

Dr. DEBENTURE HOLDERS—SECOND INSTALMENT A/C *Cr.*

			£	s.	d.				£	s.	d.
19.. Apr. 1	To Debentures A/c		15,000	–	–	19.. Apr. 1	By Cash . .		15,000	–	–

Dr. DISCOUNT ON DEBENTURE ISSUE *Cr.*

			£	s.	d.						
19.. Apr. 1	To Debentures A/c		5,000	–	–						

Dr. DEBENTURES ACCOUNT *Cr.*

									£	s.	d.
						19.. Feb. 7	By Application A/c		5,000	–	–
						,,	,, Allotment A/c		15,000	–	–
						Mar. 1	,, First Instalment A/c .		10,000	–	–
						Apr. 1	,, Second Instalment A/c .		15,000	–	–
						,,	,, Discount on Debenture Issue A/c .		5,000	–	–
									50,000	–	–

The discount on the issue of Debentures represents a loss which should be written off out of revenue over a short term of years, and certainly within the period at the end of which the Debentures are "redeemable" (i.e. to be repaid).

The sums appropriated out of revenue to wipe out this loss will be debited to Profit and Loss Account and credited to Discount on Issue of Debentures Account from time to time.

The balance standing on the latter account will appear in the Balance Sheet as a temporary "fictitious" asset (i.e. an unrealizable asset) until it is extinguished by the appropriations from Profit and Loss Account.

The entries relating to an issue of Shares at a discount would be similar to the foregoing, and, in the same way, the loss arising by reason of the discount allowed should be written off out of revenue over a short term of years.

SUMMARY

1. Joint Stock Companies or Limited Companies are those the liability of whose members is limited to the nominal value of the shares for which they subscribe.

2. The Nominal Share Capital of a company is the amount the company is authorized by its Memorandum of Association to raise.

3. Subscribed or Issued Capital is the amount actually applied for and allotted to the members.

4. Paid-up Capital is the amount actually paid by members on the shares for which they have subscribed.

5. The record of the Share Capital raised is entered in the books of account as follows—

(*a*) Share Capital Account is credited with the sums due on Application, Allotment, and the various Calls made upon the shareholders.

(*b*) Application Account, Allotment Account, and Call Accounts are debited with these sums.

(*c*) Cash is debited with the receipts from members and credited to the appropriate Application, Allotment, or Call Accounts.

6. Calls in arrear are shown by debit balances on the Call Accounts. In the Balance Sheet they are shown as deductions from the sum standing to the credit of Share Capital Account.

7. Calls in Advance (i.e. sums paid up on shares by members before the Calls have actually been made) are credited to Calls in Advance Account. In the Balance Sheet they are added to the Share Capital Account, which is only credited with Calls actually made.

8. Debentures are acknowledgments of indebtedness issued under the seal of the company. They may be divided into—

(*a*) Naked Debentures, which give no security.

(*b*) Mortgage Debentures, which are secured by a fixed or floating charge on assets;

and again into—.

(*a*) Registered Debentures, which are registered in the name of the holder in the books of the company;

(*b*) Bearer Debentures, which are transferable by delivery and do not require to be registered in the name of the holder.

9. Both Shares and Debentures may be issued at a premium or at a discount.

10. The record of the issue of Debentures in the financial books is practically identical in form with that of Share Capital.

11. Preference Shares liable to redemption may be issued subject to certain restrictions, but no other class of share is redeemable.

EXERCISE 80

The X Y Z & Co., Ltd., is formed with a Nominal Capital of £100,000 divided into 20,000 shares of £5 each, the whole of which are offered for subscription by the public on the following terms—

10s	per share	on application;
30s.	,,	on allotment;
40s.	,,	one month after allotment;
20s.	,,	two months after allotment;

18,000 shares were applied for on 1st February, 19.., and were allotted to the applicants on that date. All the sums due were paid on the due dates, with the exception of the last Call on 2,000 shares.

Enter the records giving effect to these transactions in the books of X Y Z & Co., Ltd.

EXERCISE 81

The A B Engineering Co., Ltd., offered for subscription £20,000 5% First Mortgage Debentures of £100 each at a premium of 5%, payable as follows—

£			
5	per £100	Debenture	on Application;
25	,,	,,	on Allotment;
50	,,	,,	on 1st July, 19..;
25	,,	,,	on 1st September, 19..
£105			

The whole of the issue was applied for and allotted on 1st April, 19.., and the amounts due were promptly paid up.

Show the transactions as they would appear in the books of the company.

EXERCISE 82

The Photoplay Company, Ltd., offered £100,000 4% Debentures, secured on the assets of the Company, for subscription on the following terms—

£5	per £100	Debenture on	Application
£5	,,	,,	Allotment
£40	,,	,,	1st September, 19..
£45	,,	,,	1st November, 19..

£5 per cent discount was to be allowed in respect of each Debenture on the final Call being paid.

The Debentures were fully applied for on 1st July, 19.., and were allotted 10th July, 19.., the whole of the allotment money being received on 15th July, 19... The first and second Calls were duly made

and paid up, except in respect of £2,000 of the Debentures, in which cases neither Call was paid by 1st November, 19...

Show the accounts recording these transactions, as they would appear in the company's books at 1st November, 19...

EXERCISE 83

The Sound & Sight Co., Ltd., was formed to take over the business of Robert Radio, a wireless manufacturer, as from 1st January, 19... According to his books, Radio's assets were—

	£
Machinery and Plant	15,000
Loose Tools	1,000
Furniture and Fittings	500
Stock of Wireless Sets and Parts . .	7,000
Debtors (all good)	2,000
His Creditors (net) were	4,000

The purchase price of the business was fixed at £25,000, which included Goodwill, the purchasers being required to pay Radio's creditors. The purchase price was to be satisfied by the allotment to Radio of £8,000 in £1 Ordinary Shares, £8,000 in £1 6% Preference Shares, and £9,000 in Cash.

The S. & S. Co., Ltd., issued an invitation to the public to subscribe for £10,000 in £1 6% Preference Shares, whilst the directors of the Company subscribed for £20,000 in £1 Ordinary Shares, paying up in full on allotment; the Authorized Capital of the Company being 20,000 6% Preference Shares of £1 each and 30,000 Ordinary Shares of £1 each. The terms on which the Preference Shares were to be acquired were—

5s. per share due on application
5s. „ „ allotment
5s. „ „ 1st March, 19..
5s. „ „ 30th April, 19..

The whole of the Preference Shares were applied for by 5th January and were allotted, and the allotment money was all received on 10th January. The first and second Calls were made and paid up on the due dates, except the Second Call on 1,000 shares. The transfer of the business took place on 1st March, 19... Record these transactions in the books of the new company, and construct the Company's Opening Balance Sheet.

CHAPTER XX

JOINT STOCK COMPANIES' ACCOUNTS

The Profit and Loss Account. The Trading and Profit and Loss Accounts of Joint Stock Companies are prepared on exactly similar principles to those upon which the final accounts of sole traders and partners are made up. The only difference between them is that which exists in the nature of some of the charges.

The Trading Account of a company which carries on a merchanting business is charged with the opening stock and the purchases, and credited with the sales and closing stock, the balance of gross profit being carried to the Profit and Loss Account.

The Profit and Loss Account is then charged with all the expenses of the distribution of the goods (e.g. Carriage), the general establishment expenses (e.g. Rent, Rates, Travellers' Expenses, Salaries, etc.), and with the financial charges (e.g. Discounts allowed, Bank Interest charged, Interest on Debentures, etc.), and the final balance is carried down to a Proposed Appropriation of Profit Account.

The Proposed Appropriation of Profit Account is an account which shows the way in which the Directors propose to apply net available profits of the company. As their proposals are subject to the confirmation of the shareholders in General Meeting, this account is merely an anticipatory account, and is not incorporated in the books of account until the proposals it contains have been duly sanctioned by the shareholders.

The student should clearly understand that this account should contain nothing but items which are appropriations of profit. All charges *against* profit, such as Interest on Debentures, must appear in the Profit and Loss Account before the net balance of profit available for division is ascertained and carried to the Proposed Appropriation Account. The latter account will, therefore, contain only such items as Interim Dividend paid, which is an appropriation of profit in anticipation, Final Dividend proposed to be paid, and transfers to the Reserve Fund, which represent accumulated or undistributed

profits specifically reserved, together with the final balance of unappropriated profit, which is to be carried to the next period of trading.

Example. The Directors of the Wrought Iron Works Co., Ltd., propose to apply the profit on the year's working, which was £20,500, in the payment of a Final Dividend of 10 per cent on the Subscribed Capital of £100,000, and to transfer the sum of £5,000 to the Reserve Fund, carrying the balance of profit forward to the next ensuing period. The balance of profit brought forward from the previous year was £2,050, and an Interim Dividend of 5 per cent had been paid. Show the Proposed Appropriation of Profit Account, and also show how the Profit and Loss Account will appear in the Balance Sheet.

PROPOSED APPROPRIATION OF PROFIT ACCOUNT

Dr *Cr.*

	£		£
To Interim Dividend paid . . .	5,000	By Profit available for Dividend . .	22,550
,, Final Dividend of 10% proposed to be paid . .	10,000		
,, Reserve Fund .	5,000		
,, Balance carried forward . . .	2,550		
	22,550		22,550

In the Balance Sheet, the Profit and Loss Account must show only the actual results and transactions which have taken place. Unlike the accounts of sole traders and partners, the balance of profit is *not* added to the Share Capital, but appears as a separate item at the foot of the liabilities side of the Balance Sheet. In the present instance it would appear thus—

	£	£
Profit and Loss Account—		
Balance from last account . .	2,050	
Profit this year	20,500	
	£22,550	
Deduct Interim Dividend paid .	5,000	
		17,550

Hitherto we have dealt only with the accounts of firms or companies carrying on merchanting business (i.e. the selling of goods in the state in which they were purchased).

It is now necessary to direct the student's attention to certain variations in the Trading and Profit and Loss Accounts when the business is that of a manufacturer (i.e. one who buys raw materials, or partly manufactured goods, and converts them into the saleable, finished article).

In such cases the Trading Account assumes the nature of a Manufacturing Account. It is debited with the opening stock of both goods and raw materials, and with the purchases of other raw materials. It must also be charged with all the direct expenses incurred in converting those raw materials into the finished article, with the sales of which it is credited. Hence, we find in the Trading Accounts of manufacturing concerns, such items as Factory Wages, Factory Rent and Rates, Carriage Inwards, Factory Manager's Salary. It is essential, therefore, that, when the student is confronted with the Trial Balance of a manufacturer's business, he should carefully scrutinize the items composing it, and select all those which clearly indicate themselves to be manufacturing expenses and charge them in the Trading Account, leaving all the indirect charges, and those incidental to the distribution of the goods and the financing of the business, to the Profit and Loss Account. Each case must be decided on its merits, but the following hints may be useful to the student in assisting him to determine what are, and what are not, Trading Account items.

1. All factory charges, such as those indicated above, are Trading Account items.

2. Carriage Inwards is a Trading Account charge, being part of the cost of obtaining the raw materials.

3. Carriage Outwards is charged against Profit and Loss Account, being an expense of distribution.

4. If no distinction is made between Carriage Inwards and Outwards, charge Carriage to Profit and Loss Account.

5. Freight Inwards, Dock and Wharf Dues on Inward Goods, Repairs to Machinery and Plant are debited to Trading Account.

6. Productive Wages go to the debit of Trading Account.

first, and when the whole of the Nominal Capital has not been issued, it is preceded by a memorandum stating what the Nominal Capital is. In the case of partnerships and sole traders, the Capital is always placed last, because in these cases it is regarded as being in the nature of a balance between the assets on the one side and the liabilities on the other.

Following the Share Capital, the remaining liabilities should appear in the order set out below, viz.—

1. Debentures *or* Secured Loans
2. Unsecured Loans
3. Trade Creditors—
    (*a*) on Bills Payable
    (*b*) on Open Account
4. Reserves
5. Reserve Fund
6. Profit and Loss Account: Balance

In addition to the foregoing, the student should also observe the following rules relating to the form in which the Balance Sheet should be displayed, bearing also in mind the provisions of the Act of 1929.

1. Depreciation written off fixed assets should be shown as a deduction from the particular asset off which it is written. If, however, the depreciation is credited to a Depreciation Fund, and not to the assets accounts, the Depreciation Fund should appear on the liabilities side.

2. Reserves for Bad Debts and for Discounts Allowable must *always* be shown as a deduction from the total amount of Trade Debtors. Similarly, reserves made for Discounts Receivable must be shown as a deduction from the amount of the Trade Creditors, and *not* set out on the assets side.

3. Other reserves which are made in respect of specific assets, such as reserves on stock, or for uncompleted contracts, should be shown as deductions.

4. Reserves for accruing revenue charges, or for charges paid in advance, should be shown as liabilities and assets respectively on their appropriate sides of the Balance Sheet.

5. Mortgage Loans secured on assets should *not* be deducted from the assets. They should be shown on the liabilities side, and, although the Act only requires a statement that they are secured to be made, it is preferable for the sake of clearness that a note should be placed beneath the entry of the

asset mortgaged drawing attention to the fact that it is held as security for the loan appearing amongst the liabilities.

6. In the case of the Balance Sheets of sole traders and partners, the balance of the Profit and Loss Account is added to the Capital of the proprietors. In the Balance Sheets of Joint Stock Companies it is *not* added to the Share Capital, but *always* appears as the last item on the liabilities side if it is a credit balance, or as the last item on the assets side if it is a debit balance.

7. Contingent liabilities, i.e. prospective liabilities which may accrue on the happening of a certain event, the commonest of which are the liabilities which would arise on Bills Receivable which have been discounted, in the event of the acceptors not meeting them, are shown *as a note only* on the Balance Sheet, and are not extended into the Cash column.

Example. The Brown Box Co., Ltd., was registered with a Nominal Capital of £10,000, divided into 5,000 ordinary shares of £1 each and 5,000 6 per cent preference shares of £1 each. From the Trial Balance shown below, extracted from the books of the Company, prepare a Trading Account and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date.

Before preparing the accounts (as above required), the following adjustments are necessary—

(1) Charge Depreciation on Land and Buildings at 2½ % per annum
(2) ,, ,, on Furniture and Fixtures at 5 ,,
(3) ,, ,, on Plant and Machinery at 10 ,,
(4) Make the Bad Debts Reserve up to £400.
(5) Carry forward the following unexpired amounts—

	£	s.	d.
(*a*) Insurance . . .	9	7	6
(*b*) Rates and Taxes . .	17	8	2

The value of the stock on 31st December, 19.., was certified by the Managing Director at £1,721 17s. 3d.

TRIAL BALANCE

	Dr. £	s.	d.	Cr. £	s.	d.
Ordinary Share Capital				4,800	–	–
Preference Share Capital				3,000	–	–
Carried forward				7,800	–	–

TRIAL BALANCE (*contd.*)

	Dr. £	s.	d.	Cr. £	s.	d.
Brought forward				7,800	–	–
Freehold Land and Buildings	3,700	–	–			
Furniture and Fixtures	946	6	10			
Stock (1st January, 19..)	1,929	14	7			
Plant and Machinery	1,727	10	2			
Rates and Taxes	87	14	1			
Carriage	422	4	8			
Trade Expenses	39	1	1			
Lighting and Heating Expenses	72	2	6			
General Expenses	127	16	10			
Discount Account (balance)				13	2	–
Preference Share Dividend (paid during the year)	171	–	–			
Ordinary Share Dividend (paid during the year)	114	–	–			
Bad Debt Reserve (as on 1st January, 19..)				188	14	8
Manufacturing Wages	2,014	1	9			
Salaries	505	14	8			
Sales				10,124	14	2
,, Returns	101	2	10			
Insurance	39	1	2			
Directors' Fees	50	–	–			
Purchases	4,129	16	8			
,, Returns				94	12	4
Sundry Debtors	3,764	17	10			
,, Creditors				2,144	5	1
Profit and Loss Account (balance, 1st Jan., 19..)				472	7	2
Bank Charges	10	2	1			
Cash at Bank	822	5	7			
,, in hand	63	2	1			
	20,837	15	5	20,837	15	5

The fact that "Manufacturing Wages" is one of the items given in the Trial Balance indicates to the student that the Trading Account required is really a Manufacturing Account, incorporating the Wages referred to.

The working of the example reads as follows—

THE BROWN BOX CO., LTD.

Dr. TRADING ACCOUNT FOR THE YEAR ENDED 31ST DEC., 19.. *Cr.*

19..		£	s.	d.	19..		£	s.	d
Jan. 1	To Stock	1,929	14	7	Dec. 31	By Sales £10,124 14 2 *Less* Returns 101 2 10	10,023	11	4
19.. Dec. 31	,, Purchases £4,129 16 8 *Less* Returns 94 12 4	4,035	4	4	,,	,, Stock	1,721	17	3
	,, Manufacturing Wages	2,014	1	9					
	,, Balance c/d, being Gross Profit	3,766	7	11					
		11,745	8	7			11,745	8	7

Dr. PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST DECEMBER, 19.. *Cr.*

19..		£	s.	d.	19..		£	s.	d.
Dec. 31	To Salaries	505	14	8	Dec. 31	By Gross Profit from Trading A/c	3,766	7	11
	,, Carriage	422	4	8		,, Discount (balance)	13	2	–
	,, Trade Expenses	39	1	1					
	,, Rates and Taxes. £87 14 1 *Less* unexpired . 17 8 2	70	5	11					
	,, Insurance £39 1 2 *Less* unexpired . 9 7 6	29	13	8					
	,, Lighting and Heating	72	2	6					
	,, Bank Charges	10	2	1					
	,, Directors' Fees	50	–	–					
	,, General Expenses	127	16	10					
	,, Bad Debt Reserve	211	5	4					
	,, Depreciation on— Land and Buildings £92 10 – Plant and Machinery 172 14 – Furniture and Fittings 47 6 4	312	10	4					
	,, Balance carried down, being net profit	1,928	12	10					
		3,779	9	11			3,779	9	11
					19.. Jan. 1	By Balance brought forward £472 7 2 *Less* Preference dividend paid . 171 – –	301	7	2
					19.. Dec. 31	,, Balance brought down, being net profit for the year	1,928	12	10
							2,230	–	–
						Less Interim Dividend paid on Ordinary Shares	114	–	–
							2,116	–	–

BALANCE SHEET AT 31ST DECEMBER, 19..

Liabilities		£	s.	d.	£	s.	d.
Nominal Share Capital—							
5,000 6% Preference Shares of £1 each .	£5,000						
5,000 Ordinary Shares of £1 each . .	5,000						
	£10,000						
Subscribed Capital—							
3,000 6% Preference Shares of £1 each		3,000	–	–			
4,800 Ordinary Shares of £1 each .		4,800	–	–			
					7,800	–	–
Sundry Creditors					2,144	5	1
Profit and Loss A/c Balance . .					2,116	–	–
					12,060	5	1

Assets	£	s.	d.	£	s.	d.
Freehold Land and Buildings at cost, *less* Depreciation written off to 31st Dec., 19..	3,700	–	–			
Less Depreciation at 2½% per ann.	92	10	–			
				3,607	10	–
Plant and Machinery at cost, *less* Depreciation and other sums written off to 31st Dec., 19.. . .	1,727	10	2			
Less Depreciation at 10% per ann.	172	14	–			
				1,554	16	2
Furniture and Fittings at cost, *less* Depreciation written off to 31st Dec., 19..	946	6	10			
Less Depreciation at 5% per ann.	47	6	4			
	–	–	–	899	–	6
Insurance unexpired . . .	9	7	6			
Rates unexpired	17	8	2			
				26	15	8
Sundry Debtors	3,764	17	10			
Less Reserve for Bad Debts .	400	–	–			
				3,364	17	10
Stock (as certified by Managing Director)				1,721	17	3
Cash in Bank	822	5	7			
„ in hand	63	2	1			
				885	7	8
				12,060	5	1

SUMMARY

1. In manufacturing concerns the Trading Account partakes of the nature of a Manufacturing Account, and must be charged with all expenses directly incurred in acquiring the goods and converting them into the saleable article.

2. The Profit and Loss Account must be charged with all indirect expenses and establishment charges, with all distributive and financial expenses, with depreciation, and with provisions or reserves for accruing charges, bad debts, and discount.

3. Assets must be stated in the Balance Sheet in the ascending or descending order of their liquidity.

4. In Company Accounts the Share Capital is always placed first on the Liabilities side. In Partnership and Sole Traders' Accounts, the Capital is placed last.

5. In Company Accounts the balance of Profit and Loss Account appears as the last item on the Liabilities side or Assets side, according to whether it is a credit or debit balance. In Partnership and Sole Traders' Accounts, it is added to or deducted from the Capital.

6. The Balance Sheet of Public Companies *must* state—

(*a*) The Authorized Capital.

(*b*) The Issued Capital.

(*c*) The fixed assets separately from the floating assets, stating how the value of the former has been arrived at.

(*d*) Costs of formation not written off.

(*e*) Costs of issue of shares or debentures.

(*f*) Value of goodwill, patent rights, and trade marks, if ascertainable.

(*g*) Whether any liability is secured otherwise than by operation of law.

(*h*) Statements as to debts, profits and losses of subsidiary companies, and how they have been treated in the main or Holding Company's accounts.

(*i*) Particulars of loans to directors and transactions in such loans during the period covered by the accounts.

EXERCISE 84

From the following Trial Balance extracted from the books of Right, Real & Co., Ltd., at 30th September, 19.., prepare the Trading Account, Profit and Loss Account, and Balance Sheet.

	£	£
Capital (20,000 shares of £10 each) .		200,000
First Call Account	75	
Second Call Account	125	
Preliminary Expenses	3,000	
Premises	30,000	
Sales		175,000
Purchases	140,000	
Machinery	92,000	
Stock at 1st October, 19..	60,000	
Debtors	25,500	
Creditors		18,600
Fixtures and Fittings	5,400	
Wages and Salaries	10,000	
Bank	22,000	
Cash	40	
Rents.	720	
Insurance	360	
Rates	800	
Sundry Trading Expenses	3,780	
Bad Debts Reserve		500
Carriage	1,200	
Premium on Shares		3,300
Discount	2,400	
	£397,400	£397,400

The Stock at 30th September, 19.., was £82,000. Reserve for Rates accrued, £200; for Rents accrued, £150; and for Insurance paid in advance, £60.

Write off for Depreciation, 2½% off Premises, 7½% off Machinery, and 10% off Fixtures. Reserve 2½% on Debtors for Discount and increase the Bad Debt Reserve to 3%.

EXERCISE 85

The Barrow Bridge Building Co., Ltd., had a Share Capital fully paid up of £100,000, divided into 60,000 Ordinary Shares of £1 each, and 40,000 5% Preference Shares of £1 each. The balance of profit brought forward at 1st January, 19.., from the previous year was £2,750. The net profit from the trading of the year ending 31st December, 19.., was £22,650. A half-year's interim dividend was paid on the Preference Shares on 1st July, 19...

The directors recommend that the available profits be applied as follows—

1. Transfer £12,000 to Reserve Fund.
2. Pay balance of Preference Dividend for the year.

3. Pay a dividend at the rate of 10% per annum on Ordinary Shares.
4. Carry forward balance of profit to next year's account.

Prepare a Proposed Appropriation of Profit Account giving effect to the recommendations of the directors.

EXERCISE 86

Royal Society of Arts

The following was the Balance Sheet of the Bright Coal Co., Ltd., as on 31st December, 19..—

Dr. BALANCE SHEET *Cr.*

		£			£
To Capital: Nominal—5,000 Shares of £1 each		5,000	By Freehold Buildings		890
Issued: 4,500 Shares of £1 each, fully paid		£ 4,500	,, Railway Trucks		2,100
,, Sundry Creditors—	£		,, Office Furniture		70
Blank Colliery Co.	190		,, Scales and Sacks		130
White Coal Co.	210		,, Horses and Vans		390
W. Stranson	35		,, Sundry Debtors—	£	
S. Brown	18	453	W. Carter	18	
,, Bills Payable—Dumbleton Colliery Co.		300	Rowton Corporation	328	
,, Profit & Loss Account (balance)		339	V. Norman	82	
			J. Wilson	23	451
			,, Stock on hand		1,000
			,, Cash at Bank		487
			,, ,, in hand		74
		£5,592			£5,592

You are required to open the Ledger Accounts necessary to record the above; and to post through the proper subsidiary books the following transactions—

19..

Jan. 1. Purchased from Dumbleton Colliery Co., 100 tons of Steam Coal at 10s. 3d. per ton.
,, Sold to H. Carver, 6 tons of House Coal at 27s. 6d. per ton.
,, Cash Sales, £18 10s. 6d.
2. Paid the Blank Colliery Co. their account, *less* £11 11s. 3d. allowance for short weight.
,, Cash Sales, £9 10s. 6d.
,, Purchased, out of cash, Insurance Stamps to the value of 14s.
,, Sold to Rowton Corporation, 80 tons of Steam Coal at 20s. per ton.
3. Cash Sales, £21 10s.
,, Received of Rowton Corporation, cheque, £300.
,, Purchased from the Blank Colliery Co., 200 tons of Coal at 11s. 9d. per ton.

Jan. 3. Paid Wages in cash, £15 9s. Received 3s. 4d. from employees on account of National Insurance.

5. Bill Payable, £300, due this date, was presented to, and paid by, the Bank.

,, Cash Sales, £19 5s.

,, Paid W. Stranson his Account, by cheque, *less* 12s. for Corn Sacks returned.

,, Purchased from S. Brown, 2 tons of Hay at £6 5s. per ton.

,, Cash Sales, £18.

,, Received from V. Norman his Account, by cheque, *less* £3 allowance.

7. Cash Sales, £23 5s. 6d.

,, Paid into Bank all cash in hand, *less* £25 retained.

,, Sold to Rowton Corporation, 120 tons of Steam Coal at 20s. per ton.

All purchases and sales were on credit, except where the contrary is stated. All cheques were paid into the Bank.

Balance the Ledger Accounts as on 7th January, 19... bring down the balances, and extract a Trial Balance.

(N.B.—*No* Profit and Loss Account, or Balance Sheet, is to be prepared.)

EXERCISE 87

The Speedy Motor Cab Co., Ltd., was registered with a Nominal Capital of £30,000, divided into 10,000 Ordinary Shares of £1 each and 20,000 6% Preference Shares of £1 each.

From the following Trial Balance, prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date—

TRIAL BALANCE

	£	s.	d.	£	s.	d.
Ordinary Share Capital Account .				10,000	–	–
Preference Share Capital Account .				18,267	–	–
Calls in arrear on Preference Shares .	8	10	–			
Stock in hand (1st Jan., 19..) . .	1,305	8	7			
Cash in hand	28	9	3			
Bank Overdraft				603	5	4
Cab Earnings				18,697	19	5
Salaries	1,187	10	3			
Tyres	4,906	3	11			
Insurance	1,521	8	–			
General Expenses	278	9	–			
Plant and Machinery at cost, less depn.	1,451	9	–			
Fixtures and Fittings ,, ,,	1,126	17	–			
Taxi-cabs ,, ,,	28,000	–	–			
Debtors and Creditors	89	17	3	710	2	–
Reserve for Renewals (1st Jan., 19..).				500	–	–
Profit & Loss A/c (Bal., 1st Jan., 19..)	748	3	5			
Rent of Taximeters	465	10	–			
Licences	312	8	–			
Petrol (*less* Payments by Drivers) .	874	8	6			
Carried forward .	42,304	12	2	48,778	6	9

	£	s.	d.	£	s.	d.
Brought forward .	42,304	12	2	48,778	6	9
Training Drivers	103	5	4			
Washing and Cleaning Cabs, etc. .	2,606	8	2			
Repairs	1,810	12	5			
Rent, Rates, and Taxes	953	8	7			
Lighting	189	5	4			
Directors' Fees.	250	–	–			
Preliminary Expenses.	458	9	6			
Legal Expenses and Audit Fee . .	102	5	3			
	£48,778	6	9	£48,778	6	9

Before preparing the Accounts, the following adjustments are necessary—

Charge Depreciation on Plant and Machinery, and Fixtures and Fittings at 10% per annum.

Charge Depreciation on taxi-cabs at 5% per annum.

Reserve for Renewals, £500.

„ for Rates owing, £18 7s. 6d.

„ for Insurance paid in advance, £170 1s. 6d.

The takings of the cabs on 30th and 31st December amounted to £171 8s. 3d., but were not paid in by the drivers until 1st January.

Write off one-third of the Preliminary Expenses Account.

The value of the Stock in hand as on 31st December, 19.., was agreed at £1,486 10s. 9d.

EXERCISE 88

London Chamber of Commerce

1. The Profit and Loss Account of Soleil d'Or, Ltd., prior to the payment of debenture interest for the half-year to 31st December, 19.., disclosed a profit of £12,850 as on 31st December, 19...

The paid-up Capital of the Company consisted of £100,000, divided into 50,000 5% Preference Shares of £1 each and 50,000 Ordinary Shares of £1 each. 100 Debentures of £100 each at 4% had also been issued.

The directors made the undermentioned recommendations for the disposal of the above balance, which were approved by the shareholders at the annual meeting—

(1) To pay the half-year's interest to 31st December, 19.., due on the Debentures.

(2) To pay the Preference dividend for the half-year to 31st December, 19...

(3) To pay a dividend for the year ended 31st December, 19.., of 10% on the Ordinary Shares, free of Income Tax.

(4) To transfer £5,000 to Reserve, raising that account to £15,000 in all.

(5) To carry forward the balance to next year.

Show the entries necessary to record these transactions in the books of Soleil d'Or, Ltd.

2. A Company was formed on 1st January, 19.., to take over the business of John Brown & Co., Manufacturing Confectioners, with a

Nominal Capital of £60,000, consisting of 60,000 shares of £1 each. 10,000 shares were issued as fully paid to the vendors in part payment of the various assets included in the purchase price. The remainder of the shares were offered to the public for subscription, and 34,000 were applied for and allotted. On 31st December, 19.., 17s. 6d. per share had been called up and duly paid, with the exception that a call of 2s. 6d. per share was unpaid on 280 shares, and that 400 shares had been paid for in full.

In addition to the balances represented by the above, the following balances appeared in the books of the Company as on 31st December, 19..—

Balances—31st December, 19..	£	s.	d.
Cash in hand	79	8	7
,, at Bank	2,106	4	8
Stock (1st January, 19..)	4,005	–	6
Sales	21,845	9	–
Purchases	10,841	11	9
Rates and Insurance	528	–	9
Plant and Machinery	6,793	10	–
Fixtures and Fittings	769	8	7
Manufacturing Wages	4,180	2	9
Bad Debts	218	7	6
Freehold Premises	17,000	–	–
Salaries	692	–	–
Factory Power	89	7	4
Lighting	120	8	–
Travellers' Salaries and Expenses	1,860	4	3
Carriage Outward	1,441	19	9
Goodwill	5,000	–	–
General Expenses	297	14	1
Returns Inwards	413	2	6
,, Outwards	214	1	6
Debtors	5,314	8	6
Creditors	1,783	4	5
Preliminary Expenses	389	7	6
Discount Account (excess of discounts allowed over those received)	1,467	7	11

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date, after taking into consideration the following—

(*a*) 10% depreciation is to be written off Plant and Machinery.

(*b*) 5% depreciation is to be written off Fixtures and Fittings.

(*c*) £100 is to be written off Preliminary Expenses.

(*d*) £250 is to be reserved for Directors' Fees.

(*e*) A Reserve for Bad and Doubtful Debts is to be created, amounting to 2½% on the Sundry Debtors.

(*f*) The vendors are to be charged with £34 8s. 7d., being bad debts made on Sundry Debtors' balances guaranteed by them.

(*g*) The Rates and Insurances owing and paid in advance respectively were £36 8s. and £43 8s. 6d.

(*h*) The Stock on hand as on 31st December, 19.., was certified by the Managing Director at £5,643 10s. 8d.

EXERCISE 89

Union of Lancashire and Cheshire Institutes

Mason & Smithson, Ltd., Brewers, Manchester, has a registered Capital of 50,000 shares of £1 each, divided into 25,000 6% Cumulative Preference Shares and 25,000 Ordinary Shares. There has been called up on the Ordinary Shares 10s. per share, whilst the Preference Shares are fully paid.

From the Trial Balance, prepare Trading, Profit and Loss Accounts, and Balance Sheet as on 31st December, 19..

Write depreciation off the following—

Barrels, 15%; Horses and Drays, 10%; Plant and Machinery, 7½%; Furniture and Fittings, 5%.

Rates are paid in advance, £37. Reserve 5% off the debtors for Discounts (before deducting Bad Debt Reserve). Reserve £200 off the debtors for Bad Debts. Stock, £12,718.

Dr. Balances—	£	s.	d.
Freehold Property	21,500	–	–
Goodwill A/c	5,000	–	–
Formation Exps.	750	–	–
Wages	3,417	10	6
Purchases, Brewing Materials	32,526	–	–
Commissions	515	14	4
Loan Interest paid, *less* Tax to 30/6/19..	88	5	8
Discounts	2,368	–	–
Travelling Exps.	1,812	–	–
Rates and Taxes	1,400	–	–
General Trade Expenses	3,659	–	–
Repairs and Renewals	663	10	–
Salaries	1,852	–	–
Stock, 1/1/19..	14,511	–	–
Profit & Loss A/c, 1/1/19..	2,425	–	–
Plant & Machinery	5,614	–	–
Barrels	777	–	–
Debtors	20,825	–	–
Directors' Fees	1,300	–	–
Furniture and Fittings	112	–	–
Bad Debts	215	–	–
Beer Duty paid	5,763	–	–
Cash in hand	10	–	–
Horses and Drays	562	–	–
	£127,666	–	6

Cr. Balances—	£	s.	d.
Preference Share Capital	25,000	–	–
Ordinary Share Capital	12,500	–	–
Cash paid on Shares forfeited and since re-issued. (To be transferred to Freehold Property A/c)	15	–	–
Loans on Mortgage at 5% per annum	3,750	–	–
Reserve for Doubtful Debts	200	–	–
Reserve Fund	5,000	–	–
Sales	66,796	–	–
Creditors	10,715	–	–
Rents received	279	–	–
Steadfast Bank, Ltd.	3,411	–	6
	£127,666	–	6

EXERCISE 90

London Chamber of Commerce

1. Avoca, Ltd., was registered with an Authorized Capital of £200,000, divided into 100,000 5% Cumulative Preference Shares of £1 each and 100,000 Ordinary Shares of £1 each. Of this Capital, 30,000 Preference Shares and 60,000 Ordinary Shares were issued and fully paid up.

On 31st December, 19.., the following balances appeared in the books of the Company—

Balances, 31st December, 19..

	£
Sundry Creditors	34,306
Leasehold Premises	84,200
4% Debentures Account	50,000
Reserve Fund	30,000
Calls in Arrear (Ordinary Shares)	500
Freehold Premises	98,650
Leaseholds Depreciation Fund	1,500
Sales	52,980
,, Returns	129
Purchases	16,856
,, Returns	628
Sundry Debtors	9,580
Stock (1st January, 19..)	8,786
Patents	1,500
Plant and Machinery	8,680
Profit and Loss Account (Credit Balance, 1st January, 19..)	9,659
Bills Receivable	1,290
Salaries	3,820
Advertising	2,980
Carriage Inwards	1,196
Investments	7,264
Cash at Bank and in hand	4,920
Manufacturing Wages	10,860
Debenture Interest Account	1,000
Transfer Fees	100
Heating and Lighting	628
Discount on Debenture Issue Account	1,250
Manufacturing Expenses	1,284
Directors' Fees	1,250
Rates, Taxes, and Insurance	921
Carriage Outwards	2,460
Interest on Investments	420
Reserve for Bad and Doubtful Debts (1st January, 19..)	420
5% Cumulative Preference Shares Account	30,000
Ordinary Shares Account	60,000

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date.

When preparing these Accounts, the following instructions must be taken into consideration—

(1) Debenture Interest for the half-year to 31st December, 19.., is to be provided for (ignore Income Tax).

(2) £1,000 is to be added to the Reserve Fund.

(3) All interest from Investments is to be added to the Reserve Fund.

(4) £200 is to be added to the Leaseholds Depreciation Fund.

(5) 10% Depreciation is to be written off Plant and Machinery Account.

(6) 20% Depreciation is to be written off the Patents Account.

(7) The Interest on the Company's investments accrued as on 31st December, 19.., but not received, amounted to £120.

(8) £250 is to be written off the Discount on Debenture Issue Account.

(9) The Reserve for Bad and Doubtful Debts is to be increased to an amount equal to 5% on the Trade Debtors.

(10) Rates paid in advance and Insurance unexpired amounted to £40 as on 31st December, 19...

(11) The Investments, having depreciated in value, are to be written down to the extent of £2,000, which amount is to be transferred from the Reserve Fund.

(12) The Stock on hand, as on 31st December, 19.., was valued at £6,410.

2. On 1st January, 19.., Excelsa, Ltd., offered for subscription 500 4% Debentures of £100 each, repayable in five years at par. The price of issue was 98, payable as to £10 per Debenture on application and the balance on 1st March, 19... Applications were received for 600 Debentures, and 500 were duly allotted on 3rd January, 19... The underwriting and costs of the issue amounted to £500.

Give the entries which these transactions would necessitate, and show how the issue would appear in the Balance Sheet of the Company as on 31st December, 19...

EXERCISE 91

East Midland Educational Union Examination

Grade III

The following is the Trial Balance of the Grading Co., Ltd., as at 31st December, 19.., and you are instructed to prepare Balance Sheet as at that date, together with relative Trading and Profit and Loss Account. The Nominal Capital of the Company is 30,000 Shares of £1 each.

	£	£
Capital		20,000
5% Debentures		6,000
Stock (1st January, 19..)	3,800	
Discount	700	
Carriage Inwards	600	
Wages	9,200	
Purchases	9,000	
Carried forward	23,300	26,000

	£	£
Brought forward	23,300	26,000
Salaries	1,000	
Sales		27,100
Returns Outwards		300
Sundry Debtors	6,000	
Sundry Creditors		3,000
Dividends, half-year to 30th June, 19..	700	
Debenture Interest, half-year to 30th June, 19..	150	
Rent and Rates	1,000	
Returns Inwards	100	
Carriage Outwards	1,000	
Bank Overdraft		410
Profit and Loss Account (1st January, 19..)		280
Bad Debts	180	
Land and Buildings	13,000	
Plant and Machinery	9,000	
Gas, Water, and Electricity	450	
Advertising	100	
Directors' Fees	500	
Insurance Premiums	110	
Repairs	430	
Cash in hand	35	
Bank Interest and Charges	35	
	£57,090	£57,090

Stock as at 31st December is £3,000.
Depreciation—
Land and Buildings, 3%
Plant and Machinery, 10%
Bad Debts Reserve of 5% on Sundry Debtors to be created.
Unexpired Insurance is £20.
Gas, Water, and Electricity outstanding, £10.
Rates outstanding, £70.

EXERCISE 92

UNION OF LANCASHIRE AND CHESHIRE INSTITUTES

The following is the Trial Balance of Maltkilns, Ltd., at 31st December, 19... The Authorized Capital is £100,000, divided into 10,000 6% Preference Shares of £5 each, of which 8,500 are issued and fully paid, and 10,000 Ordinary Shares of £5 each, all of which are issued and £4 per share paid up thereon.

Prepare a Trading Account, Profit and Loss Account, Appropriation Account, and Balance Sheet.

	£ s. d.	£ s. d.
Share Capital—Preference		42,500 – –
,, ,, Ordinary		40,000 – –
Carried forward		82,500 – –

	£	s.	d.	£	s.	d.
Brought forward .				82,500	–	–
Freehold Land and Buildings .	56,500	–	–			
Plant and Machinery . .	3,620	16	8			
Horses and Wagons . .	481	3	4			
Reserve				4,892	17	3
Profit and Loss A/c, 1st Jan., 19..				1,680	11	9
Sundry Debtors . . .	9,882	6	8			
Stocks, 1st January, 19..—						
Malt	7,644	12	9			
Barley	1,891	9	2			
Wages	4,381	18	3			
Carriage and Freight Inwards .	2,072	6	4			
Salaries and Commission . .	1,782	9	1			
Printing and Stationery . .	101	8	9			
Discount allowed . . .	2,184	13	2			
Horse-keep and Stable Expenses	271	7	6			
Rates, Taxes, and Insurance .	613	7	2			
Gas and Water . . .	82	7	7			
Repairs and Renewals . .	864	9	1			
Bank Charges. . . .	271	16	3			
Discount received . . .				1,624	12	9
Trade Expenses . . .	343	15	6			
Coal and Coke . . .	1,741	7	2			
Sales—Malt				93,052	1	5
Directors' Fees . . .	250	–	–			
Income Tax	422	1	10			
Sundry Creditors . . .				3,692	16	2
Dividend on Preference Shares for the year ended 31st Dec., 19.. (*less* Tax paid) . .	1,912	10	–			
Purchases—Barley, etc. . .	71,021	3	5			
Goodwill, at cost to Company .	20,000	–	–			
Cash in Hand. . . .	87	6	10			
Bank Overdraft . . .				981	17	
	£188,424	16	6	£188,424	16	6

The Stock at 31st December, 19.., amounted to: Malt, £5,441 8s. 5d.; Barley, £1,728 16s. 4d. Plant and Machinery is to be depreciated at 7½% per annum, and 10% is to be written off Horses and Wagons. A Reserve for Discounts of 5% on the full amount of the debtors is to be made, and £150 provided as a Reserve for Doubtful Debts. The Articles of Association provide that, after payment of the preference dividend, the ordinary shareholders are to receive 5% (free of tax) on their holdings, and the balance of profit is to be appropriated as follows—

(*a*) 10% to the directors, as additional remuneration;
(*b*) 25% to reserve;
(*c*) the remainder as determined by the company in general meeting.

EXERCISE 93

Royal Society of Arts

Intermediate

Avoca Limited was registered with a Nominal Capital of £25,000, divided into 10,000 7% Preference Shares of £1 each and 15,000 Ordinary Shares of £1 each. Of the Nominal Capital, the following shares had been issued as on 31st December, 19..: Preference Shares, 8,000 shares, all fully paid up; Ordinary Shares, 10,000 shares, all fully paid up, except that £100 remained unpaid on Final Call Account.

The following Trial Balance was extracted from the company's books as on 31st December, 19..—

Trial Balance

	Dr. £	s.	d.	Cr. £	s.	d.
Preference Share Capital Account .				8,000	–	–
Ordinary Share Capital Account .				10,000	–	–
,, ,, Unpaid Calls .	100	–	–			
Machinery and Plant . . .	2,840	–	–			
Manufacturing Wages . . .	9,857	–	–			
Stock (1st Jan. 19..) . . .	6,852	–	–			
Purchases (Net)	21,749	–	–			
Carriage and Freight (Factory) .	592	–	–			
Machinery Repairs . . .	244	–	–			
Rent and Rates (Factory £1,248; Office £340)	1,588	–	–			
General Expenses (Factory ⅞ths; Office ⅛th)	988	–	–			
Advertising Account . . .	1,287	–	–			
Patents Account	9,857	–	–			
Bad Debts Reserve (1st. Jan., 19..)				200	–	–
Sundry Debtors	7,840	–	–			
,, Creditors . . .				4,874	–	–
Office Salaries and Expenses .	4,872	–	–			
Sales				45,300	–	–
,, —Returns	481	–	–			
Directors' and Auditors' Fees .	1,525	–	–			
Bank Loan				3,000	–	–
Cash in Hand	195	–	–			
Transfer Fees				8	–	–
Office Furniture	750	–	–			
Motor Lorries	1,862	–	–			
Interim Dividend paid on Preference Shares	280	–	–			
Profit and Loss Account (1st Jan., 19..)				690	–	–
Insurance (Factory £562; Office £50)	612	–	–			
Bills Payable				2,299	–	–
	£74,371	–	–	£74,371	–	–

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date.

When preparing these accounts, the following matters must be taken into consideration—

(*a*) Depreciation is to be provided as follows: Machinery and Plant 10%, Office Furniture 8%.

(*b*) The following valuations were made as on 31st December, 19..: Stock £8,753, Motor Lorries £1,500.

(*c*) The Reserve for Bad Debts is to be further increased by an amount equal to 1% on the Gross Sales.

(*d*) One-third of the Advertising Account is to be carried forward to next year as representing the value of the metal signs.

(*e*) Provide for three months Interest at 6% on the Bank Loan.

(*f*) £200 has been debited in error to Machinery and Plant Account instead of to Furniture Account.

(*g*) A claim against the Inland Revenue for an Income Tax over-payment of £15 had been admitted but not yet paid.

CHAPTER XXI

RESERVE FUNDS, SINKING FUNDS, DEPRECIATION, AND INSURANCE FUNDS

A Reserve Fund or **Reserve Account** is an *accumulation of net profits*, after all expenses, including reserves or provisions, such as those referred to in an earlier chapter, have been properly charged in the accounts.

The *object* of such a Reserve is to conserve the resources of a business either for the purpose of—

(1) Providing extra working capital, or

(2) increasing the financial stability of the concern.

It will be evident to the student that, as the Reserve is an accumulation of net profits, it must necessarily be represented by surplus assets, since net profits can only exist to the extent to which the assets exceed the liabilities (including capital). Consequently, there cannot co-exist on a Balance Sheet a Reserve Fund or Reserve Account and a debit balance of Profit and Loss Account. It is a contradiction in terms, and in such a case the Reserve must be reduced by the amount of the debit balance of Profit and Loss Account and the latter eliminated, or the Reserve must be deducted from the debit balance of Profit and Loss Account and taken out of the liabilities side of the Balance Sheet, according to whether the Reserve credit balance or the Profit and Loss Account debit balance is the greater.

The question as to what is the difference between a " Reserve Fund " and a " Reserve Account " is a fruitful source of controversy between accountants. It is unnecessary to discuss the point at length here; but it may briefly be referred to.

It has been said that the Reserve must be represented by surplus assets. The circumstances of each business and the purpose of the Reserve must determine the nature of such surplus assets. Speaking generally, it is advisable that the Reserve should be invested *outside the business* in easily realizable and well-secured investments, so that it is readily available in case of need. The fact, however, that the Reserve is

not separately invested, but is retained in the business for working capital, or is used for extensions of Buildings and Machinery, does not make it any less a Reserve. As a general rule, the student will be safe in applying to the Reserve the term *Reserve Fund* when it is represented by investments, and *Reserve Account* when it is represented by fixed or floating assets used in the business. The creation of a Reserve Fund or Reserve Account, and of additions thereto, is recorded as follows—

The Profit and Loss Account is debited (in the third or "appropriation" part) with the amount of the Reserve made, and Reserve Fund or Reserve Account is credited. The balances of the latter accounts, being credit balances, are stated separately on the Balance Sheet as liabilities.

Secret Reserves are reserves, similar in nature to Reserve Funds and Accounts, which are not disclosed on the face of the Balance Sheet. They may be created—

1. By excessive charges for depreciation, and excessive reserves for bad and doubtful debts, discounts, etc.
2. By the omission of assets.
3. By charging capital items to revenue.

Probably the best known instance of a Secret Reserve is the omission of Buildings from the Balance Sheet of the Bank of England.

A Sinking Fund is a sum set aside periodically out of profits and specifically invested outside the business, in order to accumulate a certain sum at the end of a certain term for a specific purpose (e.g. to pay off a loan, to repurchase a lease, etc.).

The interest received from the investment is added to the accumulating fund and re-invested along with the next instalment, so that eventually the Fund consists of the instalments set aside plus compound interest upon them during the period for which they have formed part of the Fund.

The amount of the periodical instalment may be ascertained by calculation, or by reference to Sinking Fund Tables. It is necessary first to estimate the probable rate of interest at which the Fund will be invested, in order to arrive at a basis for calculation. It frequently happens that the instalments are invested at a rate higher or lower than the original basis fixed. As a result of crediting the Fund with the actual

interest received, the amount in the Fund becomes either greater or less than the calculated amount would show it to be. It becomes necessary, in such cases, to make periodical adjustments of the Fund by transferring the surplus or deficit to the credit or debit of Profit and Loss Account, as the circumstances may require. An alternative method which avoids this periodical adjustment is to credit the Fund with interest at the rate fixed as a basis, debiting Interest Account, and re-investing the correct amount of interest and instalment. Interest Account is then credited with the interest on invested instalments when received, and if these differ from the amounts of interest credited to the Fund, the difference is automatically adjusted when the balance of interest is charged or credited to Profit and Loss Account.

When the period for which the Fund is created expires, the investments are realized, and the proceeds applied to the purpose for which the Fund was formed. This leaves a credit balance existing on the Sinking Fund Account, which, thereupon, is treated as a Reserve, being an accumulation of profits.

The following Journal entries will illustrate the method of recording Sinking Fund transactions.

Example. The A Co., Ltd., have £100,000 Debentures, which are redeemable twenty-five years hence. The company create a Sinking Fund at 3 per cent for the purpose of redeeming them. The annual instalment is (say) £3,000. The first instalment is invested at 3½ per cent, the second at 2½ per cent.

Show the first three years' transactions in Journal form, and the twenty-fifth year's transactions, assuming the necessary figures.

JOURNAL

			£	s.	d.	£	s.	d.
1st year	Profit and Loss A/c . *Dr.*		3,000	–	–			
	To Sinking Fund A/c .					3,000	–	–
	Being first instalment set aside							
	Investments A/c . *Dr.*		3,000	–	–			
	To Cash . . .					3,000	–	–
	Being investment of first year's Sinking Fund instalment							

JOURNAL—(*contd.*)

			£	s.	d.	£	s.	d.
1st year end	Cash . . . . *Dr.* To Interest A/c . . One year's interest at 3½% on £3,000 (tax ignored) .		105	–	–	105	–	–
	Interest A/c . . *Dr.* To Sinking Fund A/c . Being 3% on the amount in Fund		90	–	–	90	–	–
	Interest A/c . . *Dr.* To Profit and Loss A/c . Being surplus of interest on Sinking Fund instalments		15	–	–	15	–	–
2nd year	Profit and Loss A/c . *Dr.* To Sinking Fund A/c . Being second instalment set aside .		3,000	–	–	3,000	–	–
	Investments A/c . *Dr.* To Cash . . . . Being investment of second instalment . £3,000 and interest . 90		3,090	–	–	3,090	–	–
2nd year end	Cash . . . . *Dr.* To Interest A/c . . One year's interest on Sinking Fund investments— £3,000 at 3½% £105 – – £3,090 at 2½% 77 5 –		182	5	–	182	5	–
	Interest A/c . . . . To Sinking Fund A/c . Interest on Sinking Fund, viz. £6,090 at 3%		182	14	–	182	14	–
	Profit and Loss A/c . *Dr.* To Interest A/c . . Being deficiency on Sinking Fund interest received .			9	–		9	–
3rd year	Profit and Loss A/c . *Dr.* To Sinking Fund A/c . Third year's instalment		3,000	–	–	3,000	–	–

JOURNAL—(*contd.*)

			£	s.	d.	£	s.	d.
	Investments A/c . *Dr.* To Cash . . . Investment of third year's instalment plus second year's interest		3,182	14	–	3,182	14	–
Final Year	Cash . . . *Dr.* To Interest A/c . . Interest received on Sinking Fund invested		2,825	–	–	2,825	–	–
	Interest A/c . . *Dr.* To Sinking Fund . . Interest on balance of Sinking Fund Account		2,825	–	–	2,825	–	–
	(NOTE. As the interest received is equal to the interest charged, no transfer to Profit and Loss A/c is necessary.)							
	Profit and Loss A/c . *Dr* To Sinking Fund . . Final year's instalment (NOTE. It is not necessary to invest this sum. It can be applied along with the proceeds of the investments for the purpose for which the Fund was formed.)		3,000	–	–	3,000	–	–
	Cash . . . *Dr.* To Investments A/c . Sum realized by the sale of investments (NOTE. Any profit on the realization of the investments would be credited, and any loss would be debited to Profit and Loss Account.)		97,000	–	–	97,000	–	–
	Debentures A/c . *Dr.* To Cash . . . Redemption of Debentures		100,000	–	–	100,000	–	–

The entries in the Ledger would appear as follow—

Dr. INTEREST ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
1st year	To Sinking Fund A/c . .	90	–	–	1st year	By Cash . .	105	–	–
	,, Profit & Loss A/c . .	15	–	–					
2nd ,,	To Sinking Fund A/c . .	182	14	–	2nd ,,	By Cash . .	182	5	–
					,, ,,	,, Profit & Loss A/c . .		9	–
Final ,,	To Sinking Fund A/c . .	2,825	–	–	Final ,,	By Cash . .	2,825	–	–

Dr. SINKING FUND ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
	[After the Redemption of the Debentures this account would be closed by transferring the balance of £100,000 to Reserve A/c]				1st year	By Profit & Loss A/c . .	3,000	–	–
					2nd ,,	,, Interest A/c .	90	–	–
					,, ,,	,, Profit & Loss A/c . .	3,000	–	–
					3rd ,,	,, Interest A/c .	182	14	–
					,, ,,	,, Profit & Loss A/c . .	3,000	–	–
					etc.	etc.			
					Final ,,	,, Interest A/c .	2,825	–	–
					,, ,,	,, Profit & Loss A/c . .	3,000	–	–
							100,000	–	–

Dr. INVESTMENTS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
1st year	To Cash . .	3,000	–	–	Final year	By Cash . .	97,000	–	–
2nd ,,	,, ,, . .	3,090	–	–					
3rd ,,	,, ,, . .	3,182	14	–					
etc.	etc.								
Final ,,	Nil								
		97,000	–	–			97,000	–	–

Dr. DEBENTURES ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
Final year	To Cash . .	100,000	–	–	1st year	By Balance .	100,000	–	–

Depreciation Funds. In the majority of cases it is the custom to credit the amount of depreciation, according to the rate determined upon, to the account of the asset which has been depreciated, and to bring down the balance of the account as the book value of the asset.

An alternative method of writing off depreciation is to open a Depreciation Fund, to which account the depreciation is credited, instead of crediting it to the accounts of the

assets. A credit balance, therefore, always exists upon this account, and it appears in the Balance Sheet as a reserve or liability, whilst the assets are stated upon the other side of the Balance Sheet at cost.

The Depreciation Fund is found most frequently in the Double Account System, which is a form of accounting prescribed by law for certain Statutory Companies (e.g. Railway Companies, Gas Companies, and others whose trading operations are carried on with the general public). The Double Account Balance Sheet is divided into two parts. The first part shows the Receipts and Expenditure on Capital Account. The balance on this account is carried down into the second part, known as the General Balance Sheet, where it appears along with the floating assets and liabilities. The form of the account does not, therefore, permit of the deduction of depreciation from the value of the fixed assets. Indeed it is, theoretically, supposed that these assets are kept in a state of efficiency out of revenue, and that no depreciation, therefore, occurs. But this ignores the loss by obsolescence, and it is customary for such concerns to charge a sum for depreciation against revenue and to credit the amount to a Depreciation Fund, which appears in the second part of the Balance Sheet, amongst the general liabilities and reserves.

Insurance Funds. Insurance Funds are most commonly met with in the accounts of steamship and other shipping companies, but they are not confined to this class of concern. A company possessing numerous assets subject to risk of loss by fire or other dangers, such as a shipping company with a large fleet of ships, which, in the ordinary course, would be insured with an insurance company, may determine to undertake the risks itself. It is only policy to do this where the risks are numerous and would entail a heavy charge for premiums of insurance, and where the risks may, consequently, be averaged.

The sums which, in other circumstances, would be paid by way of premiums on the risk to insurance companies, are ascertained and charged to revenue, an Insurance Fund being opened and credited with the premiums. The Fund is thus accumulated, and appears as a reserve on the liabilities side of the Balance Sheet.

When losses are incurred in respect of the risks so insured, they are debited to the Insurance Fund and credited to the

account of the asset lost. Similarly, all expenses incurred in connection with the loss are debited to the Fund, which is credited with the proceeds of any salvage recovered.

The sums set aside should be invested outside the business in "gilt-edged securities" (i.e. in the best class of investments, so that they may be readily realized and converted into cash when required, and also to avoid the risk of loss attendant upon investments in more speculative securities). This remark also applies to Sinking Funds.

SUMMARY

1. A Reserve (or Provision) is a charge against profits to meet some anticipated loss.

2. A Reserve Fund is an accumulation of profits set aside to provide for some unknown contingency, or to provide working capital and to strengthen the financial stability of a business.

3. A Sinking Fund is a sum set aside periodically and specifically invested outside the business to pay off a liability or to re-purchase an asset at the end of the term for which the Fund is created.

4. A Depreciation Fund is a fund created by a charge against profits to provide for the depreciation of assets.

5. An Insurance Fund is an accumulation of charges against profits for the purpose of providing a fund out of which losses by fire, or water, or other risks, may be met, without involving a heavy charge against any particular period's revenue.

EXERCISE 94

The Belton Cotton Spinning Co., Ltd., decided to create a Sinking Fund to redeem, in fifteen years, Debentures amounting to £20,000. Assume the annual instalment to be £1,000 on a 3% basis, and assume the instalments to have been invested at the following rates, viz., first year, 4%; second year, 2¾%.

Show in the Journal and the Ledger the accounts necessary to record the Sinking Fund transactions for the first two years.

EXERCISE 95

Distinguish between the book-keeping records necessary for the creation and recording of—

(1) A Reserve Fund.
(2) A Sinking Fund.
(3) A Depreciation Fund.

EXERCISE 96

The X Y Co., Ltd., possesses the following fixed assets, viz.—

	Book Value
Buildings	£20,000
Machinery and Plant . . .	50,000
Motor Vehicles	2,000

It was decided to write off the cost of Motor Vehicles over a period of five years, and to create a Depreciation Fund for the remaining fixed assets by providing for depreciation of Buildings at the rate of 1½% per annum on the reducing value, and of Machinery and Plant at 7½% per annum on reducing value. Show the three asset accounts and the Depreciation Fund Account for the first five years.

EXERCISE 97

The M & N Co., Ltd., on preparing its Balance Sheet at 31st December, 19.., finds that it has a loss of £10,000. It has, however, a Reserve Fund of £50,000, which is invested outside the business in 3½% War Stock. It is overdrawn at the bank £3,000. The directors decide to pay a dividend of 10% per annum for the year on the paid-up capital of the company, which consists of £50,000 Ordinary Shares.

State two methods by which the dividend can be paid, if you think the company can legally pay a dividend.

Give effect to your answer in each case by making the necessary entries in the various accounts which would be affected.

CHAPTER XXII

ROYALTIES, DEAD RENTS, SHORT WORKINGS

A ROYALTY is the amount payable by one person to another for some advantage or privilege granted to the payee; e.g. the right to manufacture patented articles, the right to seek and obtain minerals from certain land.

In the case of collieries, the royalty payable is fixed by the lease of the mine, and is usually based upon the tonnage of coal raised. Inasmuch, however, as the earlier years in the life of the mine, during which it is being developed, are not likely to yield any large amount of tonnage, it is commonly provided in the lease that a minimum sum shall be paid for the right conceded when the royalty calculated on the tonnage does not reach that figure. This is called the "minimum rent," "dead rent," or "certain rent."

Where a minimum rent is provided in the lease, it is also customary to provide that any "short workings" (i.e. the excess of the minimum rent over the actual royalty earned) may be redeemed within a specified period out of future royalty earnings.

Where these provisions apply, the records in the books of account are made as follows—

1. Debit Minimum Rent to "Dead Rent Account," and credit the landlord.

2. Debit Royalties Account with the royalties earned, and credit Dead Rent Account.

3. Transfer the excess of Dead Rent due over royalties earned to the debit of Short Working Account, crediting Dead Rent Account. This will close the Dead Rent Account.

4. Debit landlord with amount of Cash paid for Dead Rent, thus closing the landlord's account.

5. Credit Royalties Account and debit Profit and Loss Account with actual royalty earnings, by which the Royalties Account will be closed.

6. The Short Workings Account will, at this point, show a debit balance, which is redeemable out of future royalty

earnings. Therefore, when the royalty earnings exceed the Dead Rent—

Debit Royalties Account and credit Short Workings with the amount available for redemption of short workings (i.e. the excess of Royalties over Dead Rent).

7. When the Short Workings have been redeemed, there is no further need for that account or for the Dead Rent Account. In future the landlord will be credited with the whole of the royalties earned, and the Royalties Account will be debited with this sum, which will ultimately be transferred to the debit of Profit and Loss Account.

Example. The Coal Mining Co., Ltd., acquired from A. Landowner the lease of a mine, subject to the following conditions, viz.—

1. A Royalty of 6d. per ton of coal raised.
2. A Dead Rent of £500 per annum.
3. Short Workings to be redeemable within a period of five years.

The tonnage of coal raised was as follows—

	Tons
1st year	6,000
2nd ,,	19,000
3rd ,,	26,000
4th ,,	38,000

Show the accounts relating to these transactions in the books of the Coal Mining Co., Ltd.

It will be noted that the Royalties earned were—

		£
1st year	6,000 tons at 6d. per ton =	150
2nd ,,	19,000 ,, ,, ,, =	425
3rd ,,	26,000 ,, ,, ,, =	650
4th ,,	38,000 ,, ,, ,, =	950

As the Dead Rent is £500 per annum, the Short Workings in the first year would be £350, and in the second year £75, a total of £425. In the third year the Royalties exceed the Dead Rent by £150, which may be applied to redeem a portion of the Short Workings, leaving £275 unredeemed. In the fourth year the excess of Royalties was £450, of which £275 is taken to redeem Short Workings, leaving £175 to be paid to the landlord, in addition to the £500 for Dead Rent.

The accounts in the Ledger would appear thus—

Dr. ROYALTIES ACCOUNT *Cr.*

		£	s.	d.		£	s.	d.
1st year	To Dead Rent A/c	150	–	–	By Profit & Loss A/c.	150	–	–
2nd ,,	,, ,, ,,	425	–	–	,, ,, ,,	425	–	–
3rd ,,	,, ,, ,,	500	–	–	,, ,, ,,	650	–	–
	,, Short Workings	150	–	–				
4th ,,	,, ,, ,,	275	–	–	,, ,, ,,	950	–	–
	,, Landford . .	675	–	–				

Dr. DEAD RENT ACCOUNT *Cr.*

		£	s.	d.		£	s.	d.
1st year	To Landlord. .	500	–	–	By Royalties . .	150	–	–
					,, Short Workings.	350	–	–
2nd ,,	,, ,, . .	500	–	–	,, Royalties . .	425	–	–
					,, Short Workings.	75	–	–
3rd ,,	,, ,, . .	500	–	–	,, Royalties . .	500	–	–

Dr. LANDLORD'S ACCOUNT *Cr.*

		£	s.	d.		£	s.	d.
1st year	To Cash . .	500	–	–	By Dead Rent A/c .	500	–	–
2nd ,,	,, ,, . .	500	–	–	,, ,, ,, .	500	–	–
3rd ,,	,, ,, . .	500	–	–	,, ,, ,, .	500	–	–
4th ,,	,, ,, . .	675	–	–	,, Royalties A/c .	675	–	–

Dr. SHORT WORKINGS ACCOUNT *Cr.*

		£	s.	d.			£	s.	d.
1st year	To Dead Rent A/c	350	–	–	3rd year	By Royalties A/c .	150	–	–
2nd ,,	,, ,, ,,	75	–	–	4th ,,	,, ,, ,, .	275	–	–
		425	–	–			425	–	–

It should be noted that whilst there is a prospect of redeeming the Short Workings out of future Royalties within the period allowed for that purpose, the balance on the Short Workings Account may be regarded as an asset and shown as such in the Balance Sheet. But immediately it is evident that the whole of the Short Workings cannot be redeemed out of Royalties before the period of redemption elapses, the amount which cannot be redeemed becomes a loss and should be forthwith charged against Profit and Loss Account, so that,

at the end of the redemption period, no balance will remain on the Short Workings Account.

SUMMARY

1. Royalties are sums paid under leases and licences, based, in case of collieries, on coal raised; and, in the case of patents, on articles produced.
2. Minimum or Dead Rents are the least sums payable as rent when the royalties earned are less than the figure so fixed.
3. Short Workings or Dead Rents Redeemable are the excess of Dead Rents over Royalties earned which are redeemable out of future excesses of Royalties earned over Dead Rents.
4. The landlord is credited with the Dead Rent or Royalty earned, whichever is the greater, subject to the redemption of previous excess Dead Rents.
5. Excess of Dead Rent over Royalties earned is debited to Short Workings Account.
6. Excess of Royalties earned over Dead Rent is credited to Short Workings until this account is wiped out.
7. If a time limit is fixed beyond which Dead Rents are not redeemable, the balance of Short Workings Account at the end of the period must be charged to Profit and Loss Account.

EXERCISE 98

A obtains the lease of a colliery subject to a Royalty of 6d. per ton per annum. Short Workings are redeemable within a period of five years. The Minimum Rent is fixed at £1,000 per annum.

Give the accounts relating to the Royalty, Short Workings, and Minimum Rent on the following assumptions, viz.—

			Tons
(*a*)	1st	year: Coal raised	10,000
	2nd	,, ,, ,, ...	20,000
	3rd	,, ,, ,, ...	150,000
	4th	,, ,, ,, ...	350,000
	5th	,, ,, ,, ...	380,000
(*b*)	1st	,, ,, ,, ...	nil
	2nd	,, ,, ,, ...	10,000
	3rd	,, ,, ,, ...	20,000
	4th	,, ,, ,, ...	40,000
	5th	,, ,, ,, ...	50,000

EXERCISE 99

London Chamber of Commerce

1. The Northern Colliery Co., Ltd., took a lease of a coal mine for a period of 20 years from 1st January, 19... Under the lease, a Royalty of 6d. per ton upon the output was payable, with a Minimum Rent of £400 per annum, with power to recoup "Short Workings" over the first five years of the lease.

Show the Royalty, Dead Rents, Short Workings, and Landlord's Accounts in the books of the Colliery Co., assuming that the annual outputs for the first five years of the lease were: first year, 10,000 tons; second year, 15,000 tons; third year, 17,000 tons; fourth year, 18,000 tons; fifth year, 20,000 tons.

EXERCISE 100

The Patents Exploitation Co., Ltd., was formed to produce articles patented by X Y. The terms on which they were to manufacture were—

(*a*) A royalty to X Y of 1s. per article.

(*b*) A minimum annual royalty of £500 to be paid.

(*c*) A right to recoup any deficiency of royalty within five years out of royalties in later years exceeding £500 per annum.

The production of the patented articles was: first year, 5,000; second year, 7,500; third year, 10,000; fourth year, 17,500; fifth year, 9,000; sixth year, 12,000.

Show the Royalties, Short Workings, Minimum Royalties, and Patentee's Accounts in the books of the company for the six years.

CHAPTER XXIII

SECTIONAL BALANCING

SECTIONAL balancing is, as the term indicates, the balancing of the Ledgers of a firm by sections. This purpose is achieved by making each Ledger "self-balancing," that is by arranging that the Ledgers to be balanced shall each contain within themselves such balances as, when they are extracted, will of themselves form a complete Trial Balance. The student will, at once, see that it is necessary to supplement the ordinary trading balances of debtors and creditors in the Bought and Sold Ledgers by some balancing item in each Ledger in order to attain this object. This is done by creating in each Ledger an Adjustment Account or Totals Account, in which the whole of the postings made in that Ledger in detail appear in total *on the opposite side of the Ledger* to that in which they appear in the individual accounts. By this means a complete double entry of every item appearing in any particular Ledger is made within that Ledger, and, consequently, when *all* the balances are extracted, including the balance of the Total Account, it follows that if all entries have been correctly made and added, they will necessarily balance themselves. This must be so, because the balance of the totals which appear in the Total Account will agree with the difference or balance between the details in the individual accounts, and, being on the opposite side, will supply the necessary balancing item to make the balances of the Ledger into a complete Trial Balance, and thus self-balancing.

The Objects of self-balancing Ledgers are—

1. To locate errors in balancing, and thus to minimize the labour of discovering them; and

2. To expedite and facilitate the work of balancing the accounts at periodical stocktakings.

There are three prime essentials to be borne in mind when Ledgers are to be converted to the self-balancing principle. They are—

1. The subsidiary books must be analysed according to the Ledgers to be balanced;

2. An Adjustment or Totals Account must be created in, or in respect of, each Ledger; and

3. The Adjustment Account must be debited or credited with the difference between the balances existing in the Ledger at the opening of the period, on the opposite side to which the excess of the balances appears according to the last Trial Balance. That is to say, in the case of the Sold Ledger, the Sold Ledger Adjustment Account must be *credited* with the amount by which the *debit* balances exceed the credit balances in that Ledger as shown by the opening Trial Balance, whilst in the Bought Ledger, the Adjustment Account must be *debited* with the excess of the credit balances at the opening of the period.

It is a very common error for students to omit any reference to this third essential point, which, if ignored in practice, would, of course, make the Adjustment Accounts quite useless. For this reason, therefore, emphasis is now laid upon the point.

The method of creating self-balancing Ledgers, or of converting Ledgers to the self-balancing principle, is, therefore, as follows—

1. The subsidiary books (i.e. the Sales Book, Invoice Book, Returns Books, Bills Books, and Cash Book) must be analysed under the headings of the Ledgers to be balanced. This analysis may be effected by adding columns to the subsidiary books, suitably headed, or by extraction (i.e. by extracting on columnar sheets the detailed items appearing in the books under the headings of the Ledgers to which they have been respectively posted).

Let us take, as an example, the accounts of a firm possessing a Bought Ledger, Country Sales Ledger, Town Sales Ledger, and Nominal or General Ledger which they desire to make self-balancing. The subsidiary books are the Sales Book, the Purchases or Invoice Book, and the Cash Book. Reference to the Returns Books and Bills Payable and Receivable Books will be omitted, in order not to complicate the illustration, but the student must understand that exactly the same principle of analysis applies to these books.

(*a*) The Sales Book will be analysed by the addition of

two analytical columns, one for postings to the Country Sales Ledger, and the other for postings to the Town Sales Ledger.

(*b*) The Bought Book will not require the addition of any analytical columns, for all the postings will be assumed to be made to the Bought Ledger, of which only one exists.

(*c*) The Cash Book will require, on the debit side, columns for Discount and Bank (assuming all entries to pass through the Bank, and, therefore, omitting the usual Cash column), and, in addition, a total column and analytical columns for Town Sales Ledger, Country Sales Ledger, and General Ledger, in which the items shown in the total column will be appropriately analysed. On the credit side there will be the usual Discount and Bank columns, supplemented by a total column and analytical columns for the Bought Ledger and General Ledger.

It may here be pointed out that there may be, on occasion, certain items appearing in the subsidiary books for which no appropriate columns exist (e.g. a posting may possibly be made from the Sales Book to the Bought Ledger). In such a case the item will be extended into the first analysis column in red ink, and will be analysed by extraction and shown as a sub-analysis at the foot of the column in which it appears, and will be posted to its appropriate Adjustment Account accordingly. As such items occur but rarely, it would be a waste of space, and would tend to make the books cumbersome, to provide special columns for them.

2. Having provided for the analysis of the subsidiary books, it is next necessary to open at the end of the Town Sales Ledger a General Ledger Adjustment Account, and also in each of the other Ledgers, similar Adjustment Accounts appropriately named.

3. The illustration to follow assumes that the books are to be made self-balancing right from the first entries. If the books had been in use previously, it would be necessary to debit or credit the Adjustment Accounts with the difference between the detailed balances on the individual accounts at the opening of the period, as beforementioned. But, in this illustration, it is not necessary, since no such balances are assumed to exist.

4. Take now the Town Sales Ledger. This Ledger contains

the personal accounts of town customers, which will, in the usual course, be debited with the value of goods sold to them, and will be credited with the cash received from them plus the discounts allowed, which together will be the amount shown by the total column of the debit side of the Cash Book. Meanwhile, the General Ledger Adjustment Account appearing in the Town Sales Ledger will be *credited* with the total sales as shown by the Town Sales Book, and *debited* with the total cash and discount postings to that Ledger, as shown by the Town Sales Ledger column on the debit side of the Cash Book. Having thus got in the General Ledger Adjustment Account, in total, the detailed individual postings to the Town Sales Ledger, it follows that the total of the balances of the personal accounts will agree with the balance shown by the Adjustment Account, and as they appear on opposite sides, together they will form a complete Trial Balance.

5. In an exactly similar manner, the General Ledger Adjustment Account in the Country Sales Ledger will enable that Ledger to be made self-balancing.

6. In the case of the Bought Ledger, the General Ledger Adjustment Account will be constructed upon a similar principle. The personal accounts will, in the first instance, be credited with the purchases made and debited with the cash and discount paid. The Adjustment Account will correspondingly be *debited* with the total purchases made, as ascertained from the Invoice Book, and be *credited* with the total cash and discount paid, which sum will be obtained from the Bought Ledger analysis column on the credit side of the Cash Book. As a result of this process, the debit balance on the Adjustment Account will be found to be equal to the sum of the credit balances in the individual personal accounts of the Bought Ledger, which will thus have become self-balancing.

7. Turning now to the General Ledger, which is assumed to embrace the Cash Account, it may be pointed out that by creating Adjustment Accounts in the personal Ledgers, we have recorded therein totals which in the ordinary course of double-entry book-keeping are also recorded in the General Ledger. And, if as suggested above, we regard the Cash Account as a part of the General Ledger, it will be found that we have actually recorded the whole double entry totals

in the Adjustment Accounts. If, therefore, in the General Ledger, we create not one Adjustment Account, but an Adjustment Account for each of the personal Ledgers, in which are recorded entries corresponding with those in the General Ledger Adjustment Accounts in the personal Ledgers, but upon the reverse sides, we shall have a kind of quadruple entry. Therefore, we create, in the General Ledger, a Town Sales Ledger Adjustment Account, a Country Sales Ledger Adjustment Account, and a Bought Ledger Adjustment Account, and we enter in each of these accounts, but upon the opposite side, exactly the same totals as appear in the Adjustment Accounts in the respective Ledgers. These accounts will then of themselves form a complete double entry.

Now the General Ledger Adjustment Accounts in the personal Ledgers are each of them summaries of the whole of the detailed transactions occurring in those Ledgers. Therefore, when we get these Adjustment Accounts repeated and reversed in the General Ledger, it follows that this Ledger will contain in summary form the complete double entry of the whole of the transactions. It will be clear, therefore, that if the balances of the General Ledger are now extracted, they will form a complete Trial Balance, and this Ledger, like the others, will have become self-balancing.

The great advantage of creating these complementary personal Ledger Adjustment Accounts in the General Ledger is that it enables that Ledger to be balanced separately, and, as these Adjustment Accounts give the total debtors and creditors in the personal Ledgers, the preparation of the Trading and Profit and Loss Accounts and the Balance Sheet can be proceeded with, without having to await the balancing of the separate personal Ledgers, which may occupy some time when the Debtors and Creditors Ledgers are numerous and contain considerable detail.

It will be noted that the Personal Ledger Adjustment Accounts in the General Ledger, being the reverse of the General Ledger Adjustment Accounts in the various personal Ledgers, will show the total debit and total credit balances upon the correct sides of the accounts.

8. In order to avoid complicating the example, no reference is made to the use of the Journal in the illustration to follow.

It should be noted, however, that the entries in the Journal must be subject to the same analysis as those in the other books, and the totals must be carried to the respective Adjustment Accounts. Furthermore, great care should be exercised that *all transfers from one Ledger to another are passed through the Journal.* Otherwise, if transfers are made direct without the intervention of the Journal, there is a danger that they will be lost sight of, and, as a result, the Ledgers will fail to be self-balancing, because these items have been omitted from the Adjustment Accounts, whilst appearing in the individual personal accounts.

Example. Thomas Newman commenced business as a general merchant on 1st July, 19.., having a capital of £5,000 in cash. His accountant recommended the use of four Ledgers, namely, Town and Country Sales Ledgers, Purchases Ledger, and General or Private Ledger, and that each should be made self-balancing. The other books in use were Sales Books, Invoice Book, and Cash Book.

At the end of July the various transactions were as follows—

PURCHASES

19..		£	s.	d.
July 1	Purchased of T. Waters, Goods . .	750	–	–
7	,, J. Jackson ,, . .	927	–	–
11	,, H. Harris ,, . .	179	–	–
13	,, T. Waters ,, . .	212	–	–
18	,, B. Bell ,, . .	322	–	–
20	,, H. Harris ,, . .	75	–	–
29	,, T. Trott ,, . .	117	–	–

TOWN SALES

19..		£	s.	d.
July 2	Sold to M. Mariner Goods . . .	121	–	–
4	,, T. Tracey ,, . . .	217	–	–
7	,, G. Goodman ,, . . .	238	–	–
11	,, H. Hartley ,, . . .	191	–	–
30	,, Sundry Buyers ,, . . .	795	–	–

COUNTRY SALES

19..		£	s.	d.
July 5	Sold to B. Brown Goods . . .	327	–	–
8	,, C. Carr ,, . . .	120	–	–
12	,, D. Drury ,, . . .	415	–	–
16	,, E. Everett ,, . . .	91	–	–
30	,, Sundry Buyers ,, . . .	746	–	–

SALES BOOK

			Folio	Total £	s.	d.	Town £	s.	d.	Country £	s.	d.
19..												
July 2	M. Mariner . . .	Goods	T. 1	121	–	–	121	–	–			
5	B. Brown . . .	,,	C. 1	327	–	–				327	–	–
4	T. Tracey . . .	,,	T. 2	217	–	–	217	–	–			
7	G. Goodman . . .	,,	T. 3	238	–	–	238	–	–			
8	C. Carr . . .	,,	C. 2	120	–	–				120	–	–
11	H. Hartley . . .	,,	T. 4	191	–	–	191	–	–			
12	D. Drury . . .	,,	C. 3	415	–	–				415	–	–
16	E. Everett . . .	,,	C. 4	91	–	–				91	–	–
30	Sundry Buyers . .	,,	T. 5	795	–	–	795	–	–			
,,	,, ,, .	,,	C. 5	746	–	–				746	–	–
				3,261	–	–	1,562	–	–	1,699	–	–
							T.S. 6			C.S. 6		

BOUGHT LEDGER

Dr. T. WATERS (1) *Cr.*

19..			£	s.	d.	19..			£	s.	d.
July 5	To Cash . .	1	500	–	–	July 1	By Goods .	1	750	–	–
30	,, ,, . .	1	200	–	–	13	,, ,, . .	1	212	–	–
	,, Balance .	c/d	262	–	–						
			962	–	–				962	–	–

Dr. J. JACKSON (2) *Cr.*

19..			£	s.	d.	19..			£	s.	d.
July 14	To Cash . .	1	500	–	–	July 7	By Goods .	1	927	–	–
,,	,, Balance .	c/d	427	–	–						
			927	–	–				927	–	–

Dr. H. HARRIS (3) *Cr.*

19..			£	s.	d.	19..			£	s.	d.
July 30	To Balance .	c/d	254	–	–	July 11	By Goods .	1	179	–	–
						20	,, ,, .	1	75	–	–
			254	–	–				254	–	–

Dr. B. BELL (4) *Cr.*

19..			£	s.	d.	19..			£	s.	d.
July 25	To Cash . .	1	155	–	–	July 18	By Goods .	1	322	–	–
,,	,, Balance .	c/d	167	–	–						
			322	–	–				322	–	–

Dr. T. TROTT (5) *Cr.*

			£	s.	d.				£	s.	d.
19.. July 30	To Balance .	c/d	117	–	–	19.. July 29	By Goods .	1	117	–	–
			117	–	–				117	–	–

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT (6) *Cr.*

			£	s.	d.				£	s.	d.
19.. July 30	To Purchases .	1	2,582	–	–	19.. July 30	By Cash .	1	1,355	–	–
						,,	,, Balance .	c/d	1,227	–	–
			2,582	–	–				2,582	–	–

TOWN SALES LEDGER

Dr. M. MARINER (1) *Cr.*

			£	s.	d.				£	s.	d.
19.. July 2	To Goods .	1	121	–	–	19.. July 8	By Cash .	1	115	–	–
						,,	,, Discount .	1	6	–	–
			121	–	–				121	–	–

Dr. T. TRACEY (2) *Cr.*

			£	s.	d.				£	s.	d.
19. July 4	To Goods .	1	217	–	–	19.. July 12	By Cash .	1	125	–	–
						30	,, Balance .	c/d	92	–	–
			217	–	–				217	–	–

Dr. G. GOODMAN (3) *Cr.*

			£	s.	d.				£	s.	d.
19.. July 7	To Goods .	1	238	–	–	19.. July 14	By Cash .	1	226	–	–
						,,	,, Discount .	1	12	–	–
			238	–	–				238	–	–

Dr. H. HARTLEY (4) *Cr.*

			£	s.	d.				£	s.	d.
19.. July 11	To Goods .	1	191	–	–	19.. July 30	By Balance .	c/d	191	–	–

(5)

			£	s.	d.				£	s.	d.
19.. July 30	To Goods .	1	795	–	–	19.. July 30	By Cash .	1	515	–	–
						,,	,, Discount .	1	18	–	–
						,,	,, Balance .	c/d	262	–	–
			795	–	–				795	–	–

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT Cr. (6)

			£	s.	d				£	s.	d.
19.. July 30	To Cash & Dist.	1	1,017	–	–	19.. July 30	By Sales .	1	1,562	–	–
,,	,, Balance .	c/d	545	–	–						
			1,562	–	–				1,562	–	–

COUNTRY SALES LEDGER

Dr. B. BROWN Cr. (1)

			£	s.	d.				£	s.	d
19.. July 5	To Goods .	1	327	–	–	19.. July 11	By Cash .	1	200	–	–
						,,	,, Balance .	c/d	127	–	–
			327	–	–				327	–	–

Dr C. CARR Cr. (2)

			£	s.	d.				£	s	d.
19.. July 8	To Goods .	1	120	–	–	19.. July 12	By Cash .	1	75	–	–
						,,	,, Balance .	c/d	45	–	–
			120	–	–				120	–	–

Dr D. DRURY Cr. (3

			£	s.	d				£	s.	d.
19.. July 12	To Goods .	1	415	–	–	19.. July 18	By Cash .	1	250	–	–
						,,	,, Balance .	c/d	165	–	–
			415	–	–				415	–	–

Dr. E. EVERETT Cr. (4)

			£	s.	d.				£	s.	d.
19 July 16	To Goods .	1	91	–	–	19..	By Balance .	c/d	91	–	–

Dr. SUNDRY BUYERS (5) Cr.

			£	s.	d.				£	s.	d.
19.. July 30	To Goods .	1	746	–	–	19.. July 30	By Cash .	1	491	–	–
						,,	,, Discount .	1	14	–	–
						,,	,, Balance .	c/d	241	–	–
			746	–	–				746	–	–

Dr. GENERAL LEDGER ADJUSTMENT ACCOUNT (6) Cr.

			£	s.	d.				£	s.	d.
19.. July 30	To Cash & Dist.	1	1,030	–	–	19.. July 30	By Sales .	1	1,699	–	–
,,	,, Balance .	c/d	669	–	–						
			1,699	–	–				1,699	–	–

GENERAL LEDGER

Dr. WAGES AND SALARIES (10) Cr.

			£	s.	d.				£	s.	d.
19.. July 2	To Cash . .	1	7	10	–						
16	,, ,, . .	1	15	–	–						
23	,, ,, . .	1	7	10	–						
30	,, ,, . .	1	7	10	–						
			37	10	–						

Dr. ADVERTISING ACCOUNT (11) Cr.

			£	s.	d.				£	s.	d.
19.. July 8	To Cash . .	1	29	15	–						

Dr. TRADE CHARGES (12) Cr.

			£	s.	d.				£	s.	d.
19.. July 15	To Cash . .	1	35	–	–						
30	,, ,,	1	19	15	–						
			54	15	–						

Dr. RENT ACCOUNT (13) Cr.

			£	s.	d.				£	s.	d.
19.. July 30	To Cash	1	25	–	–						

Dr. CAPITAL ACCOUNT (1) Cr.

			£	s.	d.				£	s.	d.
						19.. July 1	By Cash .	1	5,000	–	–

Dr. **DRAWING ACCOUNT** Cr. (2)

			£	s.	d.				£	s.	d.
19.. July 19	To Cash . .	1	25	–	–						

Dr. **PETTY CASH ACCOUNT** Cr. (3)

			£	s.	d.				£	s.	d.
19.. July 1	To Cash . .	1	30	–	–						

Dr. **TOWN SALES ADJUSTMENT LEDGER ACCOUNT** Cr. (4)

			£	s.	d.				£	s.	d.
19.. July 30	To Sales A/c .	S.B.	1,562	–	–	19.. July 30	By Cash . .	1	1,017	–	–
						,,	,, Balance .	c/d	545	–	–
			1,562	–	–				1,562	–	–

Dr. **COUNTRY SALES ADJUSTMENT LEDGER ACCOUNT** Cr. (5)

			£	s.	d.				£	s.	d.
19.. July 30	To Sales A/c .	S.B.	1,699	–	–	19.. July 30	By Cash . .	1	1,030	–	–
						,,	,, Balance .	c/d	669	–	–
			1,699	–	–				1,699	–	–

Dr. **PURCHASES LEDGER ADJUSTMENT ACCOUNT** Cr. (6)

			£	s.	d.				£	s.	d.
19.. July 30	To Cash . .	1	1,355	–	–	19.. July 30	By Purchases A/c. .	I.B.	2,582	–	–
30	,, Balance .	c/d	1,227	–	–						
			2,582	–	–				2,582	–	–

Dr. **SALES ACCOUNT** Cr. (7)

			£	s.	d.				£	s.	d.
						19.. July 30	By Sales .	S.B.	3,261	–	–
									3,261	–	–

Dr. **PURCHASES ACCOUNT** Cr. (9)

			£	s.	d.				£	s.	d.
19.. July 30	To Purchases	P.B.	2,582	–	–						

(7)

DISCOUNT ACCOUNT

Dr.			£	s.	d.				£	s.	d.
19.. July 30	To Cash Disct.	C.B.	50	–	–						Cr.

TRIAL BALANCES

PURCHASES LEDGER

		£	s.	d.			£	s.	d.
	General Ledger A/c .	1,227	–	–		T. Waters .	262	–	–
						J. Jackson .	427	–	–
						H. Harris .	254	–	–
						B. Bell .	167	–	–
						T. Trott .	117	–	–
		1,227	–	–			1,227	–	–

TOWN SALES LEDGER

		£	s.	d.			£	s.	d.
	T. Tracey .	92	–	–		General Ledger A/c .	545	–	–
	H. Hartley .	191	–	–					
	Sundry Buyers .	262	–	–					
		545	–	–			545	–	–

COUNTRY SALES LEDGER

		£	s.	d.			£	s.	d.
	B. Brown .	127	–	–		General Ledger A/c .	669	–	–
	C. Carr .	45	–	–					
	D. Drury .	165	–	–					
	E. Everett .	91	–	–					
	Sundry Buyers .	241	–	–					
		669	–	–			669	–	–

GENERAL LEDGER

		£	s.	d.			£	s.	d.
	Drawing A/c .	25	–	–		Capital A/c .	5,000	–	–
	Petty Cash .	30	–	–		Purchases Ledger A/c .	1,227	–	–
	Town Ledger A/c	545	–	–		Sales A/c .	3,261	–	–
	Country Ledger A/c .	669	–	–					
	Discount A/c .	50	–	–					
	Purchases A/c .	2,582	–	–					
	Wages & Salaries	37	10	–					
	Advertising .	29	15	–					
	Trade Charges .	54	15	–					
	Rent .	25	–	–					
	Bank Balance .	5,440	–	–					
		9,488	–	–			9,488	–	–

SUMMARY

1. Sectional Balancing is the balancing of the books in sections by making each Ledger self-balancing.

2. It is achieved by—

(*a*) Analysing subsidiary books under the headings of the Ledgers to be made self-balancing.

(*b*) Creating Total or Adjustment Accounts in respect of each Ledger.

(*c*) Debiting each Total Account with the total of the items credited to the individual accounts in that Ledger, and by crediting Total Accounts with items debited in detail in the Ledger.

(*d*) The balance of the Total Account must then agree with the difference between the debit and credit balances of the individual accounts in the Ledger, thus forming a complete Trial Balance of that Ledger.

(*e*) It is essential that transfers from one Ledger to another should be passed through a Transfer Journal to ensure their entry in the respective Total Accounts.

(*f*) The Total Accounts must be debited or credited with the total credit or debit balances, if any, at the beginning of the period.

3. The advantages of Sectional Balancing are—

(*a*) The localization of errors.

(*b*) The reduction of labour in discovering errors.

(*c*) The possibility of preparing final accounts without the need of waiting for the complete balancing of all the books.

EXERCISE 101

On 31st August, the following was the Balance Sheet of Thomas Newman—

		£	s.	d.
Assets				
Bank		5,074	11	6
Petty Cash (Imprest)		30	–	–
Bills receivable		1,349	–	–
Sundry Debtors:	Town	135	–	–
,, ,,	Country	174	–	–
H. Hartley,	Town	6	–	–
G. Goodman,	,,	10	–	–
B. Brown,	Country	118	–	–
D. Drury,	,,	272	–	–
E. Everett,	,,	62	–	–
Stock		350	–	–
Liabilities				
Bills payable		443	–	–
T. Waters		63	–	–
J. Jackson		339	–	–
H. Harris		157	–	–
B. Bell		582	–	–
T. Trott		60	–	–
Capital Account		5,936	11	6

These balances must be entered in the proper Ledgers—Bought, Country, Town, and General.

The Ledgers were self-proving, and, in addition to the balances shown above, the following appeared in the various Ledgers.

In the General Ledger—

	£	s.	d.	£	s.	d.
Purchases Ledger Account . .				1,201	–	–
Town Ledger Account . .	151	–	–			
Country Ledger Account . .	626	–	–			

In the Purchases Ledger—

	£	s.	d.			
General Ledger Account . .	1,201	–	–			

In the Country Ledger—

				£	s.	d.
General Ledger Account . .				626	–	–

In the Town Ledger—

				£	s.	d.
General Ledger Account . .				151	–	–

Having raised the proper accounts and arranged for Nominal Ledger, enter the following transactions in the usual subsidiary books, post to Ledger Accounts, and draw out Trial Balances.

(A Cash Sales Account will be wanted in the Town Sales Ledger and a Cash Purchases Account in the Bought Ledger, with corresponding columns in the Cash Book.)

PURCHASES

19..		£	s.	d.
Sept. 1	H. Harris	27	–	–
5	J. Jackson	115	–	–
8	T. Waters	319	–	–
14	B. Bell	127	–	–
20	T. Trott	296	–	–
27	E. Stevens	121	–	–

COUNTRY SALES

19..		£	s.	d.
Sept. 3	D. Drury	175	–	–
6	C. Carr	215	–	–
9	E. Everett	125	–	–
12	B. Brown	197	–	–
15	W. Edwards	96	–	–
20	D. Drury	115	–	–
24	H. Bell	28	–	–
30	Sundry Buyers for the month . . .	491	–	–

Town Sales

19..		£	s.	d.
Sept. 7	T. Tracey	119	–	–
	H. Hartley	87	–	–
10	G. Goodman	227	–	–
14	B. Baldwin	74	–	–
20	T. Tracey	54	–	–
27	J. Jackson	115	–	–
30	Sundry Buyers for the month	725	–	–

Returns Inward

19..		£	s.	d.
	Sundry Town Buyers	27	–	–

Cash Book

19..		£	s.	d.
Sept. 3	Bills payable paid by Bank	397	–	–
	,, receivable paid at Bank	1,011	–	–
	Wages and Salaries	8	5	–
8	Paid J. Jackson (Discount £11 10s od.)	218	10	–
	,, B. Bell (Discount £29)	553	–	–
10	Received of J. Drury (Discount £13 10s. od.)	258	10	–
	,, Sundry Debtors, Country	116	–	–
	,, ,, ,, Town	105	–	–
	Wages and Salaries	8	10	–
12	Cash Sales	71	15	–
14	,, Purchases	46	–	–
15	Paid Advertising Account	6	15	–
17	,, Repairs to Fittings, etc.	11	10	–
	,, Wages and Salaries	8	10	–
20	,, H. Harris on account	100	–	–
	Received of E. Everett (Discount £2)	60	–	–
	,, R. Brown	118	–	–
24	,, H. Hartley on account	56	–	–
	,, Sundry Debtors, Town	115	–	–
	,, ,, ,, Country	219	–	–
	Wages and Salaries	8	10	–
26	Paid T. Waters on account	100	–	–
27	,, T. Trott	100	–	–
30	Personal Drawings	35	–	–
	Paid Petty Cashier for Sundries during the month	24	17	6
	Cash Sales	91	–	–
	,, Purchases	74	–	–

Drew the following Bills, which were duly accepted—

19..		£	s.	d.
Sept. 3	On D. Drury	175	–	–
12	,, W. Edwards	96	–	–
17	,, G. Goodman	227	–	–
28	,, Sundry Debtors, Country	315	–	–

Accepted the following Bills—

19..		£	s.	d.
Sept. 8	Drawn by T. Waters	200	–	–
11	,, J. Jackson	150	–	–
20	,, T. Trott	196	–	–

EXERCISE 102

From the following particulars, prepare the "Sales Ledger" Adjustment Account in the General Ledger and the "General Ledger" Adjustment Account in the Sales Ledger at 31st December, 19... Only one Sales Ledger is in existence.

	£	s.	d.
Total debit balances in Sales Ledger at 1st July, 19..	14,720	16	8
Totals of transactions for the half year ending 31st December, 19..—			
Goolds sold to customers	20,734	18	4
Goods returned by customers	2,674	19	6
Cash received from customers	15,342	4	8
Discounts allowed to them	1,640	2	2
Bills payable received from customers	6,784	10	8
,, ,, returned dishonoured	250	6	9
Bad Debts written off	167	9	1

EXERCISE 103

Rule the forms of Sales Journal and Cash Book of a firm using Town and Country Self-Balancing Ledgers. The Sales Journal should also provide for the analysis of the sales as between three departments. State how and where the items entered in each book should be posted.

EXERCISE 104

UNION OF LANCASHIRE AND CHESHIRE INSTITUTES

Prepare from the following figures a Sales Ledger Adjustment Account as it would be shown in the private Ledger of a Company which balances its Ledgers separately—

19..			£	s.	d.
Jan.	1.	Balance due from debtors	1,281	9	2
Dec.	31.	Cash received from debtors	7,712	9	7
	,,	Bad Debts	120	6	6
	,,	Interest charged to customers	82	13	4

			£	s.	d.
19..					
Dec.	31.	Discounts allowed	280	18	3
	,,	Returns from customers. . . .	491	14	4
	,,	Sales during year	8,962	5	9
	,,	Transfers from *Dr.* side of Bought Ledger	9	4	1

The balances due from debtors at 31st December, 19.., as extracted from the Sales Ledger, amounted to £1,711 15s. 6d.

CHAPTER XXIV

BRANCH ACCOUNTS

BRANCH Accounts refer to the record of transactions kept when business is carried on by a firm at its head office and at more or less numerous branch establishments situated either in this country or abroad.

The methods of treatment of such accounts differ according to circumstances. They may be divided under two headings, viz.—

1. Those adopted when all records are kept at the head office; and

2. Those adopted when the branches keep complete records of their own transactions.

1. **Where all Records are Kept at the Head Office.** In these cases, the method of keeping the records is practically identical with that explained in Chapter VII, which is adopted for arriving at departmental trading results.

The columnar system is introduced into the books at the head office, and all sales and purchases are analysed between the head office and the various branches, the latter being treated in the nature of different departments. All direct expenses (i.e. expenses which can be directly attributed to the head office or any particular branch) are similarly analysed. Indirect expenses are not analysed in detail, but are charged to their respective nominal accounts in the first instance, and subsequently apportioned between the head office and the branches upon the basis of sales, or upon some other basis which experience has proved to be equitable.

Columnar Trading Accounts are prepared, showing the trading results of each branch in an exactly similar fashion to the departmental Trading Accounts illustrated in Chapter VII. If the indirect expenses are not apportioned, the gross trading results of the branches are transferred to a General Profit and Loss Account, against which the undivided indirect expenses are charged, leaving the net balance of Profit or Loss.

2. **Where Branches Keep their own Records.** In these cases, the branches keep a complete set of double entry books, through which the whole of their transactions are passed in the usual manner. The branches treat each other and the head office as ordinary debtors and creditors, and the head office treats the branches in an exactly similar manner. Sales or transfers of goods to head office or branches, and expenses incurred in respect of other branches and head office, are charged to Head Office Account or Branch Account accordingly. Remittances from the branches to head office, or from head office to branches, are similarly charged or credited, as the case may be, whilst returns to head office are debited to Head Office Account in the branch books, and are credited to the Branch Account in the head office books. The result of this procedure is that in the head office books there exists a Branch Account which is debited with goods transferred to, or expenses incurred in respect of that branch, and which is credited with remittances and returns from the branch. Correspondingly, in the branch books there is a Head Office Account, in which these same items are credited and debited respectively.

Consequently, at any given time the balance on the Head Office Account in the branch books will be identical with the balance on the Branch Account in the head office books; but the balances will appear, of course, on the opposite side of the accounts, because the branch has credited what head office has debited, and has debited what the head office has credited. Where there are inter-branch transactions, exactly the same state of affairs will prevail. The debit balance on the A Branch Account in the B Branch books, for example, will correspond with a credit balance on the B Branch Account in the A Branch books.

When the trading period is closed, stock is taken and each branch prepares a Trial Balance of its books, which it will be able to do because the books are kept on the double entry principle. Each branch then transmits a copy of its Trial Balance to the head office. At the head office the various Trial Balances are amalgamated. Separate Trading Accounts are prepared, and the resulting profit or loss on the Branch Trading Accounts and the Head Office Trading Accounts are ascertained and transferred to the General Profit and Loss Account.

In preparing the General Balance Sheet, the Head Office Account balances in the branch Trial Balances, and the Branch Account balances in the head office Trial Balance, are ignored, for, being equal and on the opposite sides of the books, they mutually cancel one another. This is natural, for it would be absurd to show the branches as debtors or creditors of the business, for they are merely departments of the whole, and a business cannot owe something to itself, nor can anything be said to be owing by the business to a department of itself. Hence, the head office and branch balances disappear in the General Balance Sheet.

In order to place the Branch Accounts in the head office books and the Head Office Accounts in the branch books on a clear footing for the next ensuing period of balancing, it is necessary to close the nominal accounts existing in the branch books. Those existing in the head office books will, of course, be automatically closed by transfers to the Head Office Profit and Loss Account.

The nominal accounts in the branch books may be cleared either—

1. By transferring the nominal balances to the debit or credit of Head Office Account; or

2. By the branch preparing its own Trading Account, transferring the nominal balances thereto, and subsequently crediting or debiting Head Office Account with the loss or profit shown.

Both these methods have the same effect provided the branches bring their stocks on hand into the books of account.

After the branches have closed their nominal accounts and charged or credited the Head Office Account, it will be necessary for the head office to debit or credit the Branch Accounts in its books with the loss or profit shown by the Branch Trading Accounts, and by this means maintain the agreement between the Branch Accounts in its books with the Head Office Accounts in the branch books.

Example. The following statements represent the Trial Balances of a head office and a branch at 31st December, 19.. At this date the head office stock was valued at £3,000, and the branch stock at £600.

BRANCH TRIAL BALANCE

AT 31ST DECEMBER, 19..

	£	£
Debtors	600	
Creditors		200
Head Office Account		400
Sales		5,000
Purchases	3,600	
Trade Expenses	600	
Wages	500	
Bank	300	
	5,600	5,600

HEAD OFFICE TRIAL BALANCE

AT 31ST DECEMBER, 19..

	£	£
Capital		6,500
Debtors	1,200	
Creditors		900
Branch Account	400	
Sales		15,000
Purchases	12,000	
Wages	1,500	
Trade Expenses	1,200	
Head Office Stock (at 1st January, 19..)	2,600	
Branch Stock (at 1st January, 19..)	500	
Bank	3,000	
	22,400	22,400

You are required—

1. To prepare the Head Office and Branch Trading and Profit and Loss Accounts.
2. To show the closing adjusting entries in the Head Office Account in the branch books and in the Branch Account in the head office books.
3. To give the Trial Balances as they would appear after the entries referred to above had been made.
4. To show the General Balance Sheet at 31st December, 19...

HEAD OFFICE TRADING AND PROFIT AND LOSS ACCOUNT

Dr. *Cr.*

19..		£	19..		£
Jan. 1	To Stock . .	2,600	Dec. 31	By Sales . .	15,000
Dec. 31	,, Purchases .	12,000		,, Stock . .	3,000
	,, Wages . .	1,500			
	,, Trade Exps. .	1,200			
	,, Profit transferred to Gen Profit & Loss A/c . .	700			
		18,000			18,000

BRANCH TRADING AND PROFIT AND LOSS ACCOUNT

Dr. *Cr.*

19..		£	19..		£
Jan. 1	To Stock . .	500	Dec. 31	By Sales . .	5,000
Dec. 31	,, Purchases .	3,600		,, Stock . .	600
	,, Wages . .	500			
	,, Trade Exps. .	600			
	,, Profit transferred to Gen Profit & Loss A/c . .	400			
		5,600			5,600

GENERAL PROFIT AND LOSS ACCOUNT

Dr.

			19..		£
			Dec. 31	By Branch Profit & Loss A/c .	400
				,, Head Office Profit & Loss A/c . .	700
					1,100

In order to close the nominal accounts open in the branch books, it is necessary to transfer the balances standing upon them to the Head Office Account, which will consequently appear as shown on p. 266.

HEAD OFFICE ACCOUNT

(IN BRANCH BOOKS)

Dr.		£		*Cr.*	£
19..			19..		
Dec. 31	To Purchase A/c	3,600	Dec. 31	By Balance b/d	400
	,, Trade Exps.	600		,, Sales A/c .	5,000
	,, Wages .	500			
	,, Balance c/d .	700			
		5,400			5,400
				By Balance b/d	700

Similar entries will require to be made in the Branch Account in the head office books. The corresponding contra entries are, of course, those which appear in the Branch Trading and Profit and Loss Account.

BRANCH ACCOUNT

(IN HEAD OFFICE BOOKS)

Dr.		£		*Cr.*	£
19..			19..		
Dec. 31	To Balance b/d .	400	Dec. 31	By Purchases .	3,600
	,, Sales . .	5,000		,, Trade Exps.	600
				,, Wages .	500
				,, Balance c/d	700
		5,400			5,400
	To Balance b/d .	700			

It will be noted that the foregoing account is exactly the reverse in every particular to the Head Office Account in the branch books. Hence, the balances in each set of books are again in agreement at the opening of the new trading period. The Branch Trial Balance will now read thus—

BRANCH TRIAL BALANCE

(AFTER CLOSING NOMINAL ACCOUNTS)

	£	£
Debtors	600	
Creditors		200
Head Office Account		700
Bank	300	
	900	900

The Head Office Trial Balance will appear as follows—

HEAD OFFICE TRIAL BALANCE

(AFTER PREPARING TRADING AND PROFIT AND LOSS ACCOUNT)

	£	£
Capital		6,500
Debtors	1,200	
Creditors		900
Branch Account	700	
Head Office Stock	3,000	
Branch Stock	600	
Bank	3,000	
General Profit and Loss Account		1,100
	8,500	8,500

From these two final Trial Balances the General Balance Sheet may be prepared, although it is not essential to prepare these final Trial Balances for this purpose. They are only shown here in order to illustrate the working of Branch Accounts, and to show the steps by which the accounts are carried over from one trading period to the next.

The General Balance Sheet will now read as follows—

GENERAL BALANCE SHEET

Liabilities	£	£	*Assets*	£	£
Creditors—			Stock—		
Head Office	900		Head Office	3,000	
Branch	200		Branch	600	
		1,100			3,600
			Debtors—		
Capital	6,500		Head Office	1,200	
Add Profit	1,100		Branch	600	
		7,600			1,800
			Bank—		
			Head Office	3,000	
			Branch	300	
					3,300
		8,700			8,700

It will be noted that the Head Office and Branch Accounts do not appear in the foregoing Balance Sheet. They mutually cancel each other and are, therefore, excluded.

Occasionally it may happen that the branch balances in the head office books do not agree with the head office balances in the books of the branches, or that the inter-branch balances do not correspond. These discrepancies, apart from the possibility of errors in accounting, may be taken to be due to cash or goods in transit between the head office and branches, or between the branches themselves. Cash or goods may leave the branch, for example, on the last day of the period, and not reach head office until the next day, which is the first day of a new accounting period. As a result, the record would be made in the branch book within the period, and would come into the Branch Trial Balance; but would not appear in the Head Office Trial Balance. In such a case, it is necessary to bring into the Balance Sheet an asset representing the cash or goods in transit, and as this is the amount of the difference in the head office and branch accounts, it will enable those balances once more to be eliminated.

SUMMARY

1. Where separate records are kept by branches, branches and head office treat each other as ordinary debtors and creditors.

2. Balance of Head Office Accounts in branch books must correspond with balance of Branch Account in head office books.

3. At stocktaking, branch transmits Trial Balance to head office, which prepares Profit and Loss Account and Balance Sheet by amalgamating Branch Trial Balance with its own. Branch Account and Head Office Account mutually cancel one another and do not appear in Balance Sheet.

4. After stocktaking, branch closes nominal accounts by transferring balances to Head Office Account, and head office makes corresponding entries in Branch Account in its books; the contra entries being found in Branch Profit and Loss Account prepared in head office books.

5. Where branch does not keep separate records, head office treats branch as a separate department and by columnar analysis prepares columnar Trading and Profit and Loss Accounts for branch and head office.

EXERCISE 105

From the following, prepare the Trading and Profit and Loss Account and Balance Sheet of Biggar Brothers, whose branches are situated at Brighthill and Biscombe.

TRIAL BALANCES AT 30TH JUNE, 19..

	Brighthill Books		*Biscombe Books*	
	£	£	£	£
Debtors	1,600		3,000	
Creditors		700		1,250
Plant and Machinery	3,500		16,000	
Stock	1,200		2,500	
Sales		8,000		24,000
Purchases	4,500		15,200	
Trading Expenses	700		2,000	
Buildings	1,700		9,000	
Loans				11,800
Wages	1,100		3,600	
Bank	500		6,000	
Cash	25		120	
Brighthill Account			6,125	
Biscombe Account		6,125		
Capital				26,495
	14,825	14,825	63,545	63,545

The Stocks at June, 19.., were: Brighthill, £1,300; Biscombe, £2,700.

EXERCISE 106

From the following balances prepare the Trading and Profit and Loss Account and Balance Sheet in tabular form—

	Head Office	*A Branch*	*B Branch*
	£	£	£
Buildings	2,000	4,000	7,000
Machinery		3,700	16,800
Fixtures	700		
Stock, 1st January, 19..	15,000	8,000	7,000
Sales	95,000	40,000	37,000
Purchases	78,200	20,000	29,600
Debtors	12,600	1,700	2,100
Bank	14,000 *Dr.*	5,000 *Dr.*	2,000 *Cr.*
Creditors	13,000	1,500	4,700
Cash in hand	15	20	10
Wages	2,200	3,100	4,700
Trading Expenses	1,250	1,400	2,020
Depreciation	40	100	340
Bad Debts	190		300
Investments	12,000		
Investment Income	600		
Bills Payable			300
Head Office		3,520 *Cr.*	27,870 *Cr.*
A Branch	4,000 *Dr.*		2,000 *Dr.*
B "	27,870 *Dr.*	2,000 *Dr.*	

The Stocks at 31st December, 19.., were: Head Office, £16,000; A Branch, £5,000; B Branch, £3,000.

At the close of the year there was in transit from A Branch to Head Office £480 cash.

EXERCISE 107

The X Trading Co., Ltd., has an authorized Capital of £40,000 in 40,000 shares of £1 each, of which 27,380 shares had been issued and fully paid up. The following is the Head Office and Branch Trial Balance at 31st December, 19... Prepare the Trading and Profit and Loss Account and Balance Sheet.

Trial Balance

	Head Office		*Branch*	
	£	£	£	£
Buildings at cost less depreciation	15,000		6,000	
Plant at cost less depreciation	10,000		4,000	
Rolling Stock do.	1,750		500	
Stock, 1st January, 19..	4,600		3,700	
Purchases	22,500		19,620	
Salaries and Wages	2,750		1,000	
Trading Expenses	2,250		750	
Depreciation	1,100		500	
Share Capital		27,380		
Debtors	2,642		750	
Bills Receivable	708			
Bills Payable		1,730		1,500
Creditors		1,600		2,000
Loans		5,000		3,600
Loan Interest	200		480	
Head Office				5,200
Branch	5,200			
Profit and Loss Account		1,000		
Cash	10			
Bank	3,000		1,000	
Sales		35,000		26,000
	71,710	71,710	38,300	38,300

Stocks at 31st December, 19..: Head Office, £6,500; Branch, £4,000.

CHAPTER XXV

SPECIAL FORMS OF BOOK-KEEPING, ETC.

Tabular Ledgers. With the object of saving labour, certain classes of concerns adopt specialized forms of books and accounts. They do not, however, thereby depart from the main principles of double entry book-keeping. They only apply those principles in a specialized manner.

Examples of special forms of Ledgers, known as Tabular Ledgers, are found in businesses whose transactions with its customers occur singly at stated intervals, such as the water rents and gas rents levied by Water and Gas Companies, or whose transactions are all of a similar nature and are limited in extent with any particular customer at any particular period (e.g. Hotel Companies).

Water Companies adopt a form of Tabular Ledger in which each customer is given a single line on which the transactions are recorded in appropriate columns.

On pp. 272–3 is given a form of Water Rental or Consumers' Ledger.

This rental shows the opening balance (or arrears due at the commencement of the quarter), the rent due for the quarter, the cash received, and the balance or arrears owing at the end of the quarter. In addition to this rental, the whole of these transactions are treated in total form in a Consumers' Account in the General Ledger, particulars for which are obtained from a summary of the Rental.

The advantage of this form of Ledger is that the balances due by the customers are easily ascertained, and the great amount of labour which would be entailed in opening separate accounts and writing the description of the charge in each is obviated, whilst the whole of the accounts can be balanced page by page, and, eventually, balanced in summary form at the end of the Ledger or Rental.

By placing the consumers' names in the middle, the Rental can be used for two quarters without the necessity of rewriting the names.

The system adopted for Hotel Ledgers is similar in principle

but somewhat different in form. Like the Water Rental, the Hotel Ledger is a book of prime entry, and the records it contains are summarized in appropriate accounts in the General Ledger. On page 274 is a form of Hotel Ledger.

In this case the accounts of the customers appear in vertical columns. One page only is used for each day's transactions, and every account is balanced daily, the balance remaining unpaid being carried forward to the head of the column recording the next day's transactions. The daily totals shown in the last cash column are posted to the appropriate nominal accounts, whence they are duly transferred to the Profit and Loss Account. In some cases this columnar system is further extended, and the daily totals are recorded in a summary Tabular Ledger, which is posted monthly, or at other periods to the General Ledger Accounts. By this means, the mass of details which otherwise appear in the nominal accounts is considerably reduced.

It will be observed that provision is made amongst the credits for transfers to Ledger Accounts. This is for customers who have current accounts which are settled from time to time and not at each visit. Consequently, a Personal Ledger is necessary in which these accounts, which naturally comprise

WATER COMPANIES' RENTAL

QUARTER ENDING 31ST MARCH, 19..

Arrears brought Forward			Quarter's Water Rate, 1st Jan., 19..			Fittings and Other Extras			Total Amount Due			Folio of C.B.	Cash Received			Folio of A.B.[1]	Allowances			Total Cash and Allowances			Reg. No.
£	s.	d.	£	s.	d.	£	s.	d.	£	s.	d.		£	s	d.		£	s.	d.	£	s.	d.	
				15	–	1	8	–	2	3	–	17	2	–	–	4		3	–	2	3	–	172
1	10	–	1	10	–		5	–	3	5	–												173
			1	2	–				1	2	–	18	1	2	–					1	2	–	174

Further accounts follow, each

a comparatively small proportion of the total accounts, may be recorded.

Account Current. An Account Current is a record of transactions between two parties over a period. It is a copy of the Ledger Account of the party to whom it is rendered, as it appears in the books of the party rendering it, to which is added a column on each side showing interest from the date of the transactions to the close of the period. The balance of interest is brought into the principal column at the end of the term, and is included in the amount shown to be due.

In some cases the final column on each side of the account shows the interest reduced to money figures. In this example, a more modern method is illustrated. The days are calculated from the date of the transactions to the end of the period, in this case 31st March. The amounts are then multiplied by the days and the product is extended into the third column. At the end of the period, the **balance of products** is struck, multiplied by the rate of interest chargeable, and divided by 365 (days) and by 100. This gives the balance of interest, and saves the calculation of interest in money values on each item.

R CONSUMERS') LEDGER

QUARTER ENDING 30TH JUNE, 19..

NAME AND STREET	Rateable Value	Arrears brought Forward	Quarter's Water Rate, 1 Apr. 19.	Fittings and Other Extras	Total Amount Due	Folio of C.B.	Cash Received	Folio of A.B.[1]	Allowances Made	Total Cash and Allowances	Arrears carried Forward
	£	£ s. d.	£ s. d	£ s. d.	£ s. d.		£ s. d.		£ s. d.	£ s. d.	£ s. d.
es, Adam St., 1	17										
own, ,, ,, 2	35	3 5 –									
ith, ,, ,, 3	30		Etc.	Etc.							
upying a single	line										

[1] A.B.—Allowances Book.

HOTEL VISITORS' LEDGER

FRIDAY, 14th June, 19..	Room No. 1 J. Smith			Room No. 2 R. Jones			Room No. 3 —			Room No. 4 T. Brown			Room No. 5			Etc.	Daily Total			Fo.
Debits.	£	s.	d.	£	s.	a.	£	s.	d.	£	s.	d.	£	s.	d		£	s.	d.	
Balance bt. ford.	1	15	–								10	–					4	10	–	
Apartments .		5	–		5	–					5	–					7	–	–	
Breakfast . .		3	6		3	6					2	6					2	10	–	
Lunch . .					2	6					2	6					4	–	–	
Tea . . .					1	–												16	–	
Dinners . .		5	6		5	6											5	–	–	
Suppers . .																				
Wines . .		12	–		4	–												16	–	
Spirits . .																		14	–	
Minerals . .											1	–						2	–	
Cigars . .		2	–								1	6					1	5		
Baths . .			6			6												10	–	
Fires . .																				
Attendance .		1	–		1	–					1	–					1	10	–	
Etc.																				
	3	4	6	1	3	–				1	3	6					28	13	–	
Credits.																				
Cash received .										1	3	6					16	18	–	
Allowances .																	1	–	–	
Ledger A/c .	3	4	6														4	10	–	
Balance cd. ford.				1	3	–											6	5	–	
	3	4	6	1	3	–				1	3	6					28	13	–	

EXAMPLE—

A. ALSTON IN ACCOUNT WITH B. BROWN

Interest at 5%

Dr. | *Cr.*

		£	s.	d.	Days	Product			£	s.	d.	Days	Product
19..						£	19..						£
Jan. 12	To Goods	100	–	–	78	7,800	Jan. 9	By Cash	60	–	–	71	4,260
Feb. 5	,, Cash	50	–	–	54	2,700	Feb. 8	,, Goods	140	–	–	51	7,140
Mar. 1	,, Goods	200	–	–	30	6,000	10	,, Returns	20	–	–	49	980
1	,, Balance of Interest $\left(\frac{2220 \times 5}{365 \times 100} = 6s.\ 1d.\right)$		6	1			Mar. 12	,, Cash	100	–	–	19	1,900
							31	,, Balance of Products					2,220
								,, Balance c/d	30	6	1		
		350	6	1		16,500			350	6	1		16,500
Apr. 1	By Balance b/d	30	6	1									

A short method of effecting the calculation of interest at the close is to multiply by twice the rate of interest and divide by 73,000; e.g.

$$\frac{1{,}620 \times 10}{73{,}000} = \frac{16 \cdot 2}{73} = 4s.\ 5d$$

The student should note that all calculations of interest are made from *due dates*. If, therefore, the account current includes a bill the due date of which is subsequent to the end of the term, the number of days is calculated back from the due date to the end of the term, and the product is inserted in red ink opposite the bill entry. It is then *deducted* from the addition of the products when the balance is being ascertained, and has the effect of being a "rebate" of interest.

Note that the balance of interest always appears on the side opposite to the balance of products when interest is calculated *to the last day* of the term. If interest is calculated *from the first day* of the term, the balance of interest will appear on the same side as the balance of products.

The objection to calculating interest from the first day of the term is that it necessitates striking a balance of the principal column at the close of the period, before the interest is inserted, so as to allow for interest upon that balance for the full period.

Book-keeping by Machinery. In order to speed up the recording of transactions, particularly in those cases where they are very numerous, machines have been introduced. There are several different kinds of book-keeping machines. In the case of adding and listing machines, which have a keyboard divided to represent pounds, shillings, and pence, they automatically add the debits, subtract the credits, and show the balance with each posting, often making out a Statement of Account and other forms at the same time. Another type of machine itself moves over the account forms or the bound book page, when operated, just as the hand moves over a sheet of paper when writing. The flat writing surface permits the use of carbon paper in roll form, which is fed from the rear of the machine, and several related records (for example, customer's monthly statement, Ledger Account, and Sales Journal) may be made in one operation. Included in the machine is equipment for automatic adding, subtracting, and balancing, while a complete record of all the work done

is produced at the end of the day (or other period) in the form of what is called an Automatic Audit Sheet, which is a valuable control. The Audit Sheet shows complete, condensed information without reference to the Ledger Accounts or other records.

The ordinary typewriter models of book-keeping machines consist of a typewriter with a separate adding, subtracting, and checking mechanism built into it. The additions, subtractions, and balances are obtained simply by depressing the appropriate figure keys.

In addition to the strictly book-keeping machines just mentioned, there are electrically-operated machines for furnishing information of a statistical nature—such as, for instance, the amount of the sales made by a traveller, the total quantity of a commodity sold in the period, etc. There are two makes of machines that will do this work, namely the Hollerith and Powers-Samas machines. In each case, punched cards (on which figures are represented by holes) are the first record. These cards are then sorted by electrical or mechanical means, and the particular batch of cards required (representing time, quantity, value or other item) is put into a tabulating machine which gives the total of the cards—hours, quantity, amount, or other required figures. These statistical machines are used only in very large businesses, as they are expensive.

It is impossible in a short note such as this to give a very clear idea of the modern machine side of accounting, and students are recommended to read *Introduction to Mechanized Accounts* if they wish to obtain a general insight into these methods.

Inaccurate Trial Balances. Many rules have been given for detecting errors in the Trial Balance, but only a few of these are found to be of any practical value. Strictly speaking, it should be impossible for errors to appear in Trial Balances, if care is taken in posting. The following directions may prove helpful in obtaining the desired result—

1. Make sure that the columns of the Trial Balance are properly cast, (*a*) by adding upwards, (*b*) by adding downwards.
2. See that amounts have been carried forward correctly.
3. Test the castings of each Ledger Account, and if any accounts are ruled off, see that the *Dr.* total equals the *Cr.* total.

4. Ascertain whether each Ledger balance has been properly entered in the Trial Balance.

5. See that the debit balances of Ledger appear on debit side of Trial Balance; similarly with the credits.

6. Ascertain the exact difference between the two totals of the Trial Balance; then see if the amount of such difference appears in the Ledger Accounts or subsidiary books; or

7. Halve the difference, and see whether such an amount has been entered on the wrong side.

8. Trace each posting from Cash Book, or Journal, into Ledger, to see if properly entered.

9. Trace each transaction direct from subsidiary books into Ledger, and see that each debit has its corresponding credit.

10. Keep units under units, tens under tens, etc.

11. Form all figures carefully.

There are certain accounts which, from their very nature, must appear always on the same side of a Trial Balance. For example, Cash must always show a debit balance, although the bank balance may be a credit balance, but only if the Bank Account has been overdrawn. Bills Receivable Account must show a debit balance, and under no conceivable circumstances can Bills Payable be other than a credit. All expenses of the business, such as Rent, Rates, Taxes, Insurance, Wages, Salaries, and Trade Charges will invariably be debits. Capital Accounts, and all Reserves, will be credits, while Private Drawing Accounts will be debits. All Property Accounts and all accounts due to us will be debits, while all accounts due by us will be credits. A look over the Trial Balance to see that all these accounts are on their proper sides and a careful scrutiny of such as might appear on either side will sometimes reveal an error.

Other precautions will no doubt suggest themselves to the thoughtful student.

It may sometimes happen that a certain transaction has been overlooked; when discovered it should be entered in the books on the *date of discovery*, and an explanatory note inserted admitting the omission. It must never be entered on any folio which has been previously posted into the Ledger.

Should an entry be wrongly made in any of the books, and such entry be not yet posted into the Ledger, either rule it out neatly with red ink so that the entry may still be read, or

correct it by a *contra* entry, and leave both entries unposted; then make the proper entry and post it.

Should, however, the original incorrect entry have been posted, make a *contra* entry, and post that; and *then* make the correct entry, which also must be posted.

In no case must a penknife be used to erase incorrect entries, as such a proceeding may give rise to grave doubt or suspicion on the part of the employer. Should you make a wrong entry (and such things will happen, even to the most experienced book-keeper) acknowledge the error in the manner explained above.

If the wrong account has been debited, then credit it and debit the right account by a Journal entry; if credited in error, then *vice versa*. The correcting entries may even be made in the Ledger without going through the Journal.

If an amount has been *underposted*, then add the remainder necessary to put it right on the *same* side; if *overposted*, then place the necessary correction on the *other* side. This will apply also to errors made in the Cash Book.

It should be noted that, although the Trial Balance may be in agreement, it is not conclusive evidence of the accuracy of the records. The following classes of errors may occur, and still leave the Trial Balance in agreement, viz.—

1. Compensating errors, e.g. an error of £10 overadded on debit side compensated by an over addition of £10 on credit side.

2. Errors of principle, e.g. posting to wrong account (i.e. to a nominal account instead of a personal account, etc.).

3. Errors in extensions in subsidiary books; e.g. 5 tons of coal at £2 10s. per ton extended as £12 instead of £12 10s. in Sales Book would not be revealed in Trial Balance.

4. Omissions entirely; e.g. the omission to record a sale in the Sales Book, or a purchase in the Invoice Book.

EXERCISE 108

Prepare an Account Current rendered by J. Burn to J. Jardin for the three months ending 30th June, 19.., from the following particulars, viz.—

Apr. 6. Sold to J. Jardin, Goods value £90.
12. Received from J. Jardin, Cash £60.
14. ,, ,, J. Jardin, Goods £140
20. Sold to J. Jardin, Goods £300.

exceed assets and a receiving order has been made against the debtor in the Bankruptcy Court.

Barratry. Fraudulent conduct of master or crew of a ship, tending to injure ship or cargo.

Barter. To exchange one commodity for another.

Bill of Entry. A written statement of goods entered at a custom house, whether imported or for exportation.

Bill of Lading. A written statement signed by the master or agents of a vessel, acknowledging the receipt of goods on board, and agreeing, under certain conditions, to deliver them safe to the person to whom they are directed. A sixpenny stamp is required, and such bills are transferable (like bills of exchange, or cheques) by indorsement.

Bill of Sale. An agreement, by which a person conveys his title to property. The transaction must be *bona fide*, and the bill duly registered. Ownership vests in creditor, but possession of goods remains with debtor.

Bonded Goods. Imported goods left in a bonded warehouse until the duties are paid. Such goods are said to be *in bond*.

Bonus. A premium on a loan, or for any favour shown. An extra dividend to shareholders, etc.

Book Debts. All amounts owing *to* a merchant, as shown in his books.

Broker. A person whose business it is to negotiate or make sales and purchases for a commission on behalf of other persons.

Brokerage. The commission payable to a broker for his services.

Bullion. Unminted gold and silver of standard fineness.

Carriage. The charge for conveying goods from one place to another, usually applied to goods sent by rail, or motor transport.

Cartage. Charges for hauling goods, usually to or from a depot or from docks.

Charter-Party. A contract entered into between the owner and the hirer of a vessel, for a certain period, or voyage, at an agreed rate. This contract requires a sixpenny stamp unless under seal.

Cheque. An order upon a particular banker to pay a certain specified sum of money on demand to a person named, or to bearer. Each cheque bears a twopenny stamp, and cheque books are supplied by banks to those of their customers having running accounts, who are debited with the value of the stamps, and with costs of any special printing.

C.I.F. "Cost, insurance, and freight"; a price for goods which includes prime cost of goods, and insurance and freight charges of same to destination.

Commission. A charge, usually a percentage, made by a person who acts as an agent for another.

Company (Limited). One registered under the Companies Act, 1929, which limits the liability of its members.

Company (Public). One which issues an invitation to the public to subscribe for its shares.

Company (Private). One which (*a*) does not issue invitation to public to subscribe for shares; (*b*) restricts right to transfer its shares; and (*c*) has not more than fifty members (excluding employees and ex-employees).

Composition. A payment of something less than the full amount owing, made by a person who is insolvent or bankrupt, to settle the claim; the payment is usually at so much in the £.

Contingent Liability. A liability not yet in existence, but which may accrue on the happening of a certain contingency (e.g. liability on bills discounted in event of acceptor not meeting them).

Credit Note. Abbreviated as C/N. A note sent to a person stating that such person is credited with the amount quoted; usually given when goods are returned, or as an allowance for short weight, packages, etc. See "Debit Note."

Cum div. When Stocks or Shares are sold "*cum div.*" the buyer receives the dividend due or accruing. If, however, they are sold *ex div.* the present dividend remains with the seller.

Customs. Taxes charged by a Government upon goods imported from or exported to a foreign country. See "Bonded Goods."

Debenture. An acknowledgment of indebtedness given under the seal of a company. May be secured by a charge on the company's assets. If not secured, is known as "Naked Debenture."

Debit Note. Abbreviated as D/N. A statement giving brief particulars of an amount charged to another person's account, and sent to him at the time the charge is made. See "Credit Note."

Deed of Assignment. A document under seal assigning or transferring property from one person to another. Commonly used by an insolvent debtor to assign his property to a trustee for the benefit of his creditors.

Demurrage. (1) The detention of a vessel beyond her specified time of sailing; (2) The compensation claimed or allowed for such delay; (3) A charge made by railway companies for detention of trucks, wagons, etc.; legal holidays and Sundays are not counted.

Deposit A/c. A sum of money placed in a bank on deposit and which bears a fixed rate of interest. It can be withdrawn only by giving an agreed number of days' notice.

Depreciation. The falling off in the value of machinery, plant, buildings, and other assets, due to wear and tear, obsolescence, or effluxion of time.

Discount. An amount deducted from a sum owing or to be paid; an allowance for payment of money before due date. Also see "Par."

Dividend. (*a*) The portion allotted to each shareholder in the division of profits; (*b*) instalments paid by a bankrupt estate to the creditors.

Docket. To indorse letters or other documents with a summary of their contents.

Draft. An order drawn by one party on another for the payment of money to a third; a term usually applied to a bill before it is accepted. A sight draft is a draft payable at sight.

Drawback. The amount of money "drawn back" from the Government on goods sold to customers abroad upon exportation, and on which goods the *Customs or Excise Duty* had been previously paid. See "Customs," "Excise," and "Bonded Goods."

Drawee. The person on whom a bill or cheque is drawn.

Duty. Charges made by the Government on import goods or on home manufactures subject to such duty.

E.E., E. & O.E. Errors excepted; Errors and Omissions excepted. Often written on invoices and accounts, so that if any errors or omissions be afterwards discovered, the invoice may be corrected.

Exchange. (*a*) A place where business interests of a special character are brought together, such as the *Stock* Exchange, *Corn* Exchange, etc.; (*b*) a term applied to the method of remitting money from one country to another by means of bills instead of sending actual coin. The "*Par of Exchange*" is the equivalent of a given amount of the currency of one country which in *intrinsic* or *real value* is equal to a given sum in the currency of another country. The Rate or "*Course of Exchange*" is the sum of money in one country, which, on any particular day will exchange for any given sum, on the same day, in the currency of another country. The "Course of Exchange" will vary from day to day either above or below the "Par of Exchange."

Excise. An inland tax on certain articles produced and consumed in the country. See "Customs."

Ex div. See *Cum div.*

Extend. As applied to accounts, to extend is to write the figures in the money column. To "short-extend" is to enter the figures to the left of the money column.

Extension. An allowance of further time for the payment of a debt.

Failure. The suspension of payments by a firm which is unable to meet the demands made upon it.

Folio. The page of a book; two pages facing one another, as in a Cash Book.

Free on Board (F.O.B.). A price charged or quoted for goods, which includes all expenses for delivery of the goods on board the ship.

Freight. (*a*) Charges made for carrying goods by sea; (*b*) The cargo of a ship.

Goodwill. The established popularity or the reputation and influence of a person or firm doing business. The value that a business has over and above the stock-in-trade and the money invested in it.

Guarantee. A security for the performance of a contract; a security against loss.

Indorsee. The person to whom a bill, cheque or other document is transferred by indorsement. He can then deal with the document as if it had been actually made out to him in the first instance.

Insolvent. A term applied to a firm unable to pay its debts as they fall due.

IOU. "I owe you." A written statement acknowledging a debt, and consisting of these three letters, the amount of the debt, the signature of the debtor and date. This document does not require a stamp, unless there is a promise to pay, in which case it becomes a promissory note.

Specimen— *Bristol,*

July 14th, 19..

Mr. J. Robbins,

IOU
Ten Pounds

John Blank.

Insurance. A contract by which insurance offices agree to make good to the party insuring, losses he may sustain by accident, fire, burglary, marine and other risks. The parties who take the risks are called the "insurers," or "underwriters"; the person protected is called the "insured"; the amount paid to the insurers is called the "premium"; and the written contract is called the "policy of insurance."

Interest. A charge made by the lender of money, on those who borrow; or on renewing a bill for a further period. Also the charge made upon a business by the partners in a firm for the use of capital invested by them in such business. Interest is usually charged at so much per cent per annum.

Investment. The amount of money laid out in the purchase of shares, houses, land or other property, and on which a return is expected in the way of interest or profit.

Jettison. The deliberate throwing overboard of cargo or ships' tackle to lighten and save ship. Made good by contribution of parties for whose benefit it was done.

Leakage. An allowance made to purchasers for probable loss or waste in liquids. An allowance made by Head Office to Branch retail shops to cover loss (1) in weighing out, (2) by reduction of selling prices, (3) by evaporation or decay.

Lessee. One who takes a lease of property from another person.

Lessor. One who grants a lease of property to another person.

Letter of Credit. An order upon a banker to pay the bearer a sum or sums of money up to a certain total amount, this amount having been previously paid to the banker by the firm granting the letter of credit; or the banker may draw upon the firm for the amount of its indebtedness.

Lien. A legal claim or hold on property as security for a debt or charge, possession remaining with the creditor.

Limited Liability. A term meaning that the shareholders of a limited liability company are not liable for any sum in excess of the unpaid amount on the shares they have agreed to take up.

Liquidation. The realization of the assets and the settling of the liabilities of a business or company.

Loan. Something lent; particularly a sum of money at interest.

Maturity. The date upon which bills become due.

Mortgage. A grant or deed of property to a creditor, as security for the payment of a debt, the possession of the property remaining with the debtor.

Mortgagee. The person to whom the mortgage is given.

Mortgagor. The one who gives the mortgage.

Negotiable. Bills are negotiable when they may be transferred from one to another, and at the time a bill becomes due the holder of it has the rightful claim to the money.

Net. The amount remaining after all deductions, allowances, or discounts have been made.

Net Cash. A term applied to a bill for goods, to be paid without any allowance or discount, and without reference to time.

Net Proceeds. The amount remaining after all charges, expenses, and commission have been deducted.

Notary Public. A public officer who attests or certifies deeds and other writings. His duties relate chiefly to documents used in commercial transactions, such as protests of Bills, Promissory Notes, etc.

Open Account. An unsettled account.

Order. A request from one business firm to another to supply certain specified goods.

Outstanding Accounts. Ledger debts not yet collected or paid.

Overdraft. The amount of cash which a banker allows his customer to draw out of his banking account in excess of the total moneys paid in to that customer's credit.

Overdraw. To issue cheques for a greater amount than stands to one's credit in the bank.

Overdue. Remaining unpaid after the agreed term of credit has expired.

Par. The nominal value of Stocks or Shares. When the price *rises*, they are said to be at a *premium* (*above* par). Should the price, however, fall *below* the face value, they are said to be at a *discount* (*below* par).

Partner. A member of a partnership.

Partnership. The agreement which subsists between persons carrying on a business in common with a view to profit. Governed by the Partnership Act, 1890.

Pass Book or Bank Book. A book supplied by banks to those of their customers who have current accounts with them, and which contains an account of the amounts paid into and withdrawn from the bank by those persons. It should be left at the bank at intervals to be written up to date. Loose leaves are now supplied by most Banks showing the transactions. These are bound in a permanent cover by the customer.

Plant. All fixtures, tools, machinery, implements, or other requisites necessary to carry on a business.

Policy. See "Insurance."

Post-date. To date after the real time; that is, to date with a date which has yet to arrive.

Posting. The term used when entries from the Journal or other books are transferred to the Ledger.

Premium. See "Insurance"; also "Par."

Prices Current. A regularly published list of the market prices of goods.

Principal. (*a*) The head of a firm. (*b*) The amount of money lent out at interest.

Protest. (1) The steps taken to charge an indorser with liability for the payment of dishonoured commercial paper; (2) A written declaration sworn to by the master of a vessel, setting forth the cause of, and circumstances attending, damage to the vessel or cargo.

Rebate. An amount deducted from the regular price; a discount or allowance.

Remittance. Commercial paper, or money, transmitted to another.

Render. To furnish; deliver.

Reserve Fund. The proportion of profits of a business set aside to meet future possible losses, or to increase the working capital or financial strength of the company or firm.

Retail. To sell in small quantities.

Salvage. (1) The compensation allowed to persons by whose voluntary exertions a vessel and her cargo are saved from danger or loss in case of wreck, capture, or marine misadventure. (2) That which is recovered from shipwreck, or fire; anything saved from destruction.

Schedule. An inventory or catalogue of goods, with prices.

Scrip. Provisional certificates for share certificates, stock certificates, and debenture certificates issued by a company. It certifies the name of the registered holder and the number or amount of shares, debentures, or stock held.

Set-off. To put over against something as an equivalent or compensation. (Where two persons owe money to one another, the difference only, paid by the larger debtor to the other, will settle both claims.)

Sinking Fund. A fund provided by setting aside and specifically investing periodical instalments and interest thereon, in order to replace an asset or to meet a liability at a future fixed date.

Solvent. Having sufficient to pay all debts as they become due; having greater liquid assets than liabilities.

Statement of Account. A periodical account showing the amounts due by one person or firm to another for goods supplied.

Statute of Limitations. A law assigning a certain time, after which rights cannot be enforced by law. An ordinary debt cannot be recovered, in the absence of a special written agreement or acknowledgment of its existence by part payment, after a lapse of six years.

Stock. Raw material from which anything is made; goods in store and kept for sale; the capital represented by shares of a bank, or manufacturing or trading company or corporation held by individuals; a fund consisting of a capital debt due by Government to individual holders, who receive a rate of interest. The consolidation of shares, which are then transferable in fractions.

Stock-in-Trade. The quantity and value of goods and merchandise which a dealer or manufacturer has in store at any particular time.

Stock-taking. A periodical valuation of all stock-in-trade, necessary for profit and loss purposes in balancing the books and to enable a firm to ascertain their exact amount of capital, and profit earned or loss incurred.

Storage. Amount charged for keeping goods in a warehouse.

Suspense A/c. An account in which various items are entered temporarily till their true "heading" is ascertained.

Tale Quale. "According to sample"; and referring to grain and other produce, meaning that the cargo of a ship is held to be the same as the sample submitted, the buyer taking the risk of any damage that may be afterwards sustained by the cargo.

Tare. An allowance made to the purchaser by deducting from the gross weight the weight of the case, cask, bag, or chest in which the goods are packed.

Tariff. A schedule or table of customs payable on merchandise, specifying the various duties charged on goods imported and articles exported, the drawbacks and bounties, etc., allowed.

Trade Discount. The difference between the wholesale and retail prices.

Trade Price. The reduced price charged by wholesale to retail dealers

so that the latter can make a profit on selling at the manufacturer's list price.

Transfer Fees. Fees charged by a company for registering the name of a new holder upon the transfer of shares, debentures, or stock.

Turnover. The total sales of goods within a specified period.

Underwriters. See "Insurance."

Usance. A certain period of time which it is the usage of different countries to allow for the payment of Bills of Exchange drawn upon them, exclusive of days of grace.

Voucher. Any material thing, such as a writing, that serves to attest an alleged act, especially that which serves to attest the payment of money; a receipt.

Warehouse. A storehouse for goods or merchandise, for temporary preservation.

Warehousing. Act of laying up goods in a warehouse.

Warehousing System. A regulation by which imported goods may be lodged in public warehouses, and not be chargeable with duties till they are taken out.

Warrant. A receipt, in full detail, for goods deposited in a warehouse. A warrant is transferable by indorsement, and must bear a threepenny stamp.

Wharfage. Fees for use of a wharf.

Wholesale. Buying or selling in large quantities.

Without recourse to me. (*Sans recours.*) If written over the indorser's signature on the back of commercial paper, the words imply that the indorsee has no claim against the indorser should the bill, etc., not be paid when it becomes due.

Write Back. To cancel. In renewing a bill, the old one must first be "written back" or cancelled, and a fresh one will then be issued, usually for a higher amount, the interest for an extension of time, together with expenses incurred, having been added to the original amount.

Write Off. (*a*) To close a Ledger account by transferring the difference as a Loss either to Discount and Allowances Account, or to a Bad Debts (or similar) Account. (*b*) To reduce the book value of materials.

EXAMINATION PAPERS

THE LONDON CHAMBER OF COMMERCE
(INCORPORATED)

EXERCISE 1

G. Main and H. Fear traded in partnership as Hosiery Merchants. On 1st January, 19.., they closed their books, and after all adjustments had been made the balances were as follows—

DEBIT BALANCES

	£	s.	d.
J. Lane	526	8	9
L. Wood	326	10	–
Bills Receivable—			
No. 6 L. Wood, due 15th Feb., 19..	261	5	3
No. 7. E. Bowey ,, 22nd ,, ,,	222	10	–
Stock on Hand	3,300	–	–
Furniture and Fittings	500	–	–
Freehold Premises	6,000	–	–
Cash in Hand	133	1	10
Petty Cash	50	–	–
Rates and Insurance paid in advance	40	–	–
Current Account, H. Fear	44	4	1

CREDIT BALANCES

	£	s.	d.
E. Dunn	622	3	3
C. Race	429	–	–
Bills Payable—			
No. 31 E. Dunn, due 7th January, 19..	420	1	7
No. 32 C. Race ,, 14th ,, ,,	533	5	–
Overdraft at Bankers	3,611	9	1
Capital Account—			
G. Main	4,200	–	–
H. Fear	1,400	–	–
Current Account, G. Main	188	1	–
There was a contingent liability for bills under discount, viz.—			
No. 3 L. Wood, due 11th January, 19..	311	16	11
No. 4 E. Bowey ,, 11th ,, ,,	211	12	–

Open the sectional ledgers with the above balances. Enter the following transactions in the proper subsidiary books, post to the

Ledgers and extract a Trial Balance to prove your accuracy. Petty Cash withdrawn from the bank is *not* repaid to the Bank.

19..

Jan. 4. Sold to J. Lane—
40 Ladies' Coats and Skirts at £3 2s. 6d. each.

6. Bought of Way & Co.—
12 dozen Jersey Suits at 15s. 6d. each.
Discounted with Bankers all Bills Receivable in hand. Bankers charged for discount £5 4s.

7. Bought of E. Dunn——
50 dozen Cardigans at 13s. 4½d. each.
Returned to Way & Co.—
1 dozen Jersey Suits soiled in transit and sent to them the delivery note to establish claim upon the Railway Company.

9. Drew Cheque for Petty Cash, £100.

11. Received Credit Note from Way & Co.
Bill Receivable, E. Bowey, due this day returned dishonoured.

14. Sold to L. Wood—
120 Jersey Suits at 21s. 1½d. each.
60 Cardigans at 17s. 6d. each.

16. L. Wood returned 12 soiled Cardigans, part of his purchase on 14th inst.; sent him credit note for same. He also paid the amount of his December account less 5% discount.

18. Received from W. Butler, Builder, account for repairs and general work £90 10s.

20. Drew on J. Lane at two months from this date for the amount of his December account.

21. Accepted draft E. Dunn at two months from this date for £800 and paid him the balance of his account to date less 2½% discount upon the whole amount due.

22. Received J. Lane's acceptance; discounted same with Bankers, who charged £3 3s. discount.

23. Under agreement E. Bowey paid upon his total debt, in cash, a sum equal to 15s. in the £ in full settlement. All securities to be returned to him.
Cash in hand paid to Bankers.

25. Paid by cheque the following accounts—
C. Race, less 2½% discount.
W. Butler, less 10% discount.

28. Drew cheques for Current Accounts—

G. Main	£120	–	–
H. Fear	40	–	–

30. Cash Sales for month £171 11s., paid to Bankers.
Drew cheque for Petty Cash, £100.
Drew cheque for Management Salary, H. Fear, £100.
Petty Cash payments are analysed and posted quarterly.

EXERCISE 2

After all adjustments had been made the Balance Sheet of H. Wills on 1st February, 19.., was—

Liabilities	£	s.	d.	*Assets*	£	s.	d.
Sundry Creditors:				Sundry Debtors:			
A. Jones	256	–	–	L. Williams	321	–	–
W. Pointer	512	–	–	E. Tell	211	1	3
Bill payable due 12th Feb.	331	18	9	Bills Receivable:			
Capital Account	2,794	1	3	No. 1. L. Williams, due 8th Feb.	211	17	6
				No. 2. E. Tell, due 9th Feb.	280	–	–
				Stock on Hand	2,200	–	–
				Furniture and Fittings	320	–	–
				Cash at Bank	350	1	3
	£3,894	–	–		£3,894	–	–

On account of the failure of E. Tell, whose estate proved valueless, H. Wills decided to close his business. His only transaction was a sale on 4th February of goods from stock to L. Williams at a sale price of £529, the stock value of the goods being £420. The balance of stock and the furniture and fittings were sold by tender for cash at 25% below their book value. On open accounts, both *Dr.* and *Cr.*, 5% discount was allowed on settlement. The whole matter was completed by 19th February.

Enter the transactions in the proper subsidiary books, post to the ledgers, prepare a Trial Balance, and state the final position of H. Wills after all adjustments had been made.

THE LONDON CHAMBER OF COMMERCE
(INCORPORATED)

EXERCISE 1

Enter the following transactions of George Roberts in the proper subsidiary books, post to the Ledgers and extract a Trial Balance at 31st January.

All receipts were paid to the Bank and all payments were made by cheque unless otherwise stated—

	£	s.	d.	£	s.	d.
Brought forward	1,378	5	6	3,548	6	8
Wages and salaries (charge one-half to Trading Account and one-half to Profit and Loss Account)	386	6	8			
Capital Account				500	–	–
Purchases	1,973	14	9			
Bank interest				8	13	1
Cash in hand	18	18	4			
Drawings Account	299	14	6			
	£4,056	19	9	£4,056	19	9

2. Robert Legg was in business as a tailor and below are figures showing his financial position at 1st January, 19.., and his transactions from that date to 10th January.

You are required to ascertain his capital, journalize the opening entries, and pass all the transactions through the appropriate subsidiary books. Then post to Ledger and take out a Trial Balance as at 10th January, 19...

You are *not* required to prepare Profit and Loss Account or Balance Sheet.

	£	s.	d.
Cash in hand	12	13	8
Cash at Bank	129	11	6
Shop fittings, etc.	250	–	–
Stock in trade	486	13	3

Creditor: Tailors Sundries, Ltd., £78 18s. 5d.

						£	s.	d.
Jan.	1.	Paid quarter's rent of shop by cheque				30	–	–
	3.	Cash sales to date				12	16	8
	,,	Credit sale to S. Redsland, Suit £6 16s. 6d., Tie 3s. 6d.				7	–	–
	5.	Bought from Leeds Cloth Co., Ltd.: 60 yd. coating at 10s. 6d. per yd., 64 yd. suiting at 12s. 6d. per yd. all subject to 15% trade discount.						
	,,	Paid cash to Bank				20	–	–
	6.	Paid to Tailors Sundries, Ltd.—						
		Cheque	£77	–	–			
		Discount	1	18	5			
						78	18	5
	7.	Received from S. Redsland, cheque (paid to bank) for amount due, less 5% cash discount.						
	8.	Bought from Tailors Sundries, Ltd.: Buttons, £4 2s. 6d.; Linings, £18 1s. 4d.; Thread, £2 18s. 6d.						
	9.	Paid cash for window cleaning					10	6
	10.	R. Legg, withdrew in cash				12	10	–
	,,	Cash sales for week				27	16	3
	,,	Credit sale, J. Blyth, Suit	£7	7	–			
		Overcoat	4	14	6			
						12	1	6
	,,	Paid workmen's wages in cash				5	18	6

3. *X* and *Y* are partners who share profits equally. On 1st January, 19.., *X* had a capital of £1,000 and *Y* of £2,000, and on these amounts they agree to allow interest at the rate of 5% per annum. For the year 19.., before this interest is allowed for, the profit is £500. During the year 19.., *X* has withdrawn £125 and *Y* £160. Show the two capital accounts for the year 19...

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE

Book-keeping—*First Year Senior* (*S.* 1)

1. J. Robertson is in business, and on 31st March, 19.., the following Trial Balance was extracted from his books. You are required to prepare therefrom his Trading and Profit and Loss Accounts for the year ended 31st March, 19.., and a Balance Sheet as on that date.

Trial Balance

	£	s.	d.	£	s.	d
Capital Account—J. Robertson				2,500	–	–
Sales				7,483	6	1
Sundry Creditors				740	1	3
Sundry Debtors	1,284	16	8			
Stock—1st April, 19..	864	1	9			
Wages	273	9	10			
Freehold Warehouse	1,000	–	–			
Sales Returns	111	1	1			
Drawings—J. Robertson	300	–	–			
Office Salaries	216	7	6			
National Health and Unemployment Insurance	22	3	8			
Purchases	5,723	4	4			
Discounts on Sales	147	3	2			
Cash at Bank	840	3	6			
Commission Received				59	4	2
	£10,782	11	6	£10,782	11	6

The Stock on hand on 31st March, 19.., was £215 1s. 1d.

2. From the particulars following you are required to journalize the opening entries of D. McMann, ascertaining his capital, and enter the transactions enumerated in the usual subsidiary books, post to the ledger accounts affected, and take out a Trial Balance. You are *not* required to prepare Trading and Profit and Loss Accounts and Balance Sheet.

His assets and liabilities on 1st January, 19.., were: Office Furniture £45, Stock in trade £160, Cash at Bank £300, Cash in hand £8; Sundry Debtors: A. Long £12 10s., B. Smith £21 12s. 6d., Sundry Creditors: G. Aaron £60 4s., H. Nowell £30.

			£	s.	d.
19..		Transactions—			
Jan.	2.	Sold to A. Long on credit— 200 boxes of envelopes at 4s. 6d. a box, 3 doz. bottles black ink at 4s. a doz.			
	3.	Received cheque from B. Smith,	20	–	–
		and allowed him discount	1	12	6
		Bought goods from G. Aaron on credit— 240 boxes of envelopes at 4s. per box, 4 gross pens at 10s. per gross Invoice subject to a trade discount of 5%			
	4.	Withdrew from bank for office cash	10	–	–
		Paid Wages	5	10	–
		Paid Carriage	3	12	–
	7.	Returned to G. Aaron 20 boxes of envelopes purchased from him on the 3rd inst.			
	9.	Paid to H. Nowell, by cheque, the amount of his account to date, deducting discount at 5%.			
	13.	Cash Sales to date	26	12	–
	18.	Bought new Underwood Typewriter, and paid for it by cheque	15	15	–
	21.	Sold to B. Smith on credit— 10 boxes of envelopes at 4s. 6d. per box 3 doz. pens at 12s. a gross.			
	25.	Paid cheque to G. Aaron	20	–	–
	30.	D. McMann withdrew cash for private expenses	10	–	–

3. How would the following errors affect the agreement of the Trial Balance?—

(*a*) The Sales Day Book is under-added by £10.

(*b*) Goods sold to T. Wilson for £20 have been entered in the Sales Day Book, but not posted to Wilson's account.

(*c*) A payment for rates of £34 has been posted to the debit of the Rates Account as £43.

4. 15s. in the £ is received in respect of a debt of £15 due from Harry Allen to B. H. Davies, and the balance is written off as bad. How would you record these matters in the books of B. H. Davies?

5. Define Capital and Revenue expenditure. Under which heading does each of the following come?—

(*a*) Installation of a second-hand boiler costing £170.

(*b*) Paid for repairs thereto £70 immediately on purchase.

(*c*) Paid for internal re-decoration of offices, £60.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE

Book-keeping—*Second Year Senior* (*S. 2*)

1. Below is the Trial Balance of Morden & Co. as at 31st December, 19... Up to 1st January the business had been carried on by S. Morden, but at that date of that year, W. Brear was admitted as a partner. Under the partnership agreement, Brear was to receive a

salary of £500 per annum and one-third of the profit. Morden was to receive 6% interest on his capital and the balance of profit.

TRIAL BALANCE. 31ST DECEMBER, 19..

		£
Capital Account, S. Morden		3,000
Current Account, „		610
Current Account, W. Brear	390	
Carriage inward	167	
Returns outward		89
Sales		6,873
Purchases	3,992	
Wages	1,863	
Creditors		810
Debtors	936	
Bills payable		550
Bad Debts	75	
Motor vans	1,260	
Motor Expenses	316	
Sundry Expenses	419	
Stock, 1st Jan., 19..	2,227	
Cash in hand	44	
Cash at Bank	280	
Discounts	177	214
	£12,146	£12,146

The following matters are to be taken into consideration—
Rent owing 31st December, 19.., £55.
Stock on hand 31st December, 19.., £3,740.
Motor vans to be depreciated 15%.
Brear's salary had not been paid.

A debt of £210 included with debtors is estimated to be worth £70.

2. Work the following exercise up to a Trial Balance, using appropriate subsidiary books for all the transactions. Balance the Cash Book.

The business is that of Watson & Brewer, who were partners sharing profits in proportion to their capitals which were £3,600 and £2,400 respectively. Their assets at 1st January, 19.., consisted of—

	£
Stock of goods at warehouse	3,627
Goods in Toronto on consignment to W. Taylor	539
Bills receivable	800
Debtor: W. Thorner & Son	286
Cash in hand	89
Cash at Bank	1,437
Liabilities were to creditors—	
Smith & Stone	196
Carr & Co.	182
Bills payable	400

19..						£	s.	d.
Jan.	1.	Advised bank to pay bill £200 due 4th inst.						
	3.	Paid shipping charges in connection with consignment to Toronto				37	13	3
	7.	Received cash for sub-letting premises				25	–	–
	8.	Sold goods to Benson & Benson				88	19	
		Paid cheque to Carr & Co.	£177	10	–			
		Discount	4	10	–			
						182	–	–
	9.	Received cheque from Thorner Son, paid to bank	283	3	–			
		Discount	2	17	–			
						286		
	10.	Bought goods from Carr & Co.				536	–	–
	13.	Received advice from Toronto agent that consignment had realised, gross				680	–	–
	14.	Bill receivable due this day paid into bank				300	–	–
	16.	Withdrew from bank for office cash				150	–	–
	17.	Received cheque from Insurance Company for stock damaged by fire				298	–	–
	18.	W. Watson withdrew cash				75	–	–
	20.	Made another consignment of goods to W. Taylor, Toronto				556	–	–
	21.	Bought goods from Carr & Co.				117	–	–
	23.	Sold goods to Thorner & Son				173	–	–
	27.	Paid insurance on Toronto consignment cash				21	12	6
	28.	Received account sales from W. Taylor in respect of first consignment to him, he had deducted commission 5% from gross sales, £27 16s. 9d. for expenses paid by him, and enclosed a bank draft for balance.						
	31.	Bought for cash National Health Insurance Stamps				5	5	–
	,,	Paid in cash wages for month, gross				126	–	–
	,,	Deducted for Health, etc., Insurance				1	12	–

3. *A* and *B* enter into a joint share transaction on the basis of sharing profits or losses equally. On 1st July, 19.., they bought 1,000 shares, the total cost of which was £586 10s. *A* advanced £300 and *B* the balance. On 17th August, 500 of the shares are sold by *A* for £1 1s. per share net, and on 10th September, *B* sells 300 at £1 4s. net. On 30th September, they agree to close the transaction and *B* takes over the balance of shares at par.

Show by means of a Joint Account and separate accounts for *A* and *B* how these transactions will be recorded.

4. What is meant by a Limited Liability Company?

A company with a nominal capital of £100,000 in £1 shares issues 50,000 shares and calls up 10s. per share, *X* and *Y* each hold 100 shares. *X* paid all the calls when due, but *Y* failed to pay the last call of 2s. 6d. per share.

How much are *X* and *Y* still liable to pay?

5. A business is carried on in three departments, how can the trading result of each department be ascertained? Name any special books which would be necessary, and give a ruling of any *one* of these.

6. Give a definition of a Bill of Exchange.

Name all the differences you know between a Bill of Exchange and a Promissory Note.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE

Book-keeping. *Second Year Senior* (*S.* 2)

1. Raspin & Wood are contractors, and during the year 19.., were engaged on a contract to build a detached house for B. Wood, Esq., for £2,000. Write up the contract account in their books, and show how it would be closed. The necessary information is given below—

On 1st January, 19.., work to the amount of £340 had been done on the contract, and during the year wages amounting to £760 were paid and materials costing £430 were used. Plant valued at £150 was in use on the work. For the services of the clerk of works a sum of £50 was to be charged, and for establishment expenses 10% on wages paid and materials used during the year to be charged.

The contract was completed in November, 19.., and the plant removed, being then valued at £110.

During this period the following sums had been received on account of the work: 1st March, £600; 1st June, £450; 1st October, £300.

2. The particulars given below relate to the business of Bowden & Bold, and from the information given you are required to prepare a Trading Account and a Profit and Loss Account for the year ending 31st March, 19.., and a Balance Sheet as on that date.

L. Bowden was a sleeping partner, and by the partnership agreement he was entitled to interest on his capital at the rate of 5% per annum, and one-half of the profit remaining after M. Bold, the acting partner, had received a salary of £250 and a further sum of £750 out of the profit.

Trial Balance, 31st March, 19..

	£	£
L. Bowden, Capital		5,000
M. Bold, Current Account	640	
Bills Receivable	500	
Returns Inward	86	
Carriage Outward	431	
Commission Received		137
Reserve for Doubtful Debts		100
Bad Debts	263	
Sales		12,613
Purchases	9,888	
Cash in hand	25	
Machinery and Plant	1,200	
Bank Overdraft		2,117
Discounts	321	264
Carried forward	13,354	20,231

	£	£
Brought forward	13,354	20,231
Wages and Salaries (charge two-thirds to Trading Account and one-third to Profit and Loss Account)	861	
Debtors	3,250	
Stock, 1st April, 19..	4,723	
Creditors		2,612
Bank Charges	75	
Rent, Rates and Taxes	580	
	£22,843	£22,843

Adjustments.

Stock on hand at 31st March, 19.., valued at £6,093.
Machinery and Plant to be depreciated at the rate of 5% per annum
Bold's salary has not been paid.
Rent owing for quarter, £50.
Bank interest owing for quarter, £29.
Bad debt reserve to stand at 4% on outstanding debtors.

COUNTY COUNCIL OF THE WEST RIDING OF YORKSHIRE

BOOK-KEEPING. *Second Year Senior* (*S.* 2)

1. The Trial Balance given below is extracted from the books o Malone & Good on 31st December, 19.., and you are required to pre pare Trading and Profit and Loss Accounts and Balance Sheet there from. The Articles of Partnership of the firm provide that interest or capital (drawings to be ignored) at 5% per annum is to be credited tc the partners, and that Malone is to take two-thirds and Good one-thirc of the profit, subject to Good receiving a minimum of £700 as his share Malone is to have a salary of £300, which has been paid to him.

TRIAL BALANCE, 31ST DECEMBER, 19..

	£	£
A. Malone—Capital Account		6,000
B. Good—Capital Account		3,000
A. Malone—Drawings Account	650	
B. Good—Drawings Account	200	
Sundry Debtors and Creditors	5,350	2,082
Cash in hand	86	
Cash at Bank	1,045	
Purchases and Sales	11,437	16,832
Sales Returns	218	
Manufacturing Wages	1,275	
Office Salaries	360	
Stock, 1st January, 19..	3,560	
Discounts on Purchases		242
Machinery and Plant	1,400	
Furniture and Fittings	320	
Carried forward	25,901	28,156

	£	£
Brought forward	25,901	28,156
Traveller's Commission	620	
Carriage Outwards	506	
Bank Interest		21
Rates and Taxes	297	
Partner's Salary	300	
Goodwill	330	
General Expenses	68	
Legal Charges	155	
	£28,177	£28,177

The following adjustments are required to be made—

(*a*) Reserve 2% of Sundry Debtors for Bad Debts.
(*b*) Depreciate Machinery and Plant 5% per annum.
Depreciate Furniture and Fittings 5% per annum.
(*c*) Rates amounting to £25 are paid for 19...
(*d*) £36 is owing to a traveller in respect of commission.
(*e*) Write off one-third of Goodwill.
(*f*) The Stock on 31st December, 19.. is valued at £4,308.

2. The following exercise is to be worked up to and including a Trial Balance through the usual subsidiary books. The business is conducted by John Brewer trading as Brown, Brewer & Co., and the Balance Sheet on 1st March, 19.., was as follows—

BALANCE SHEET OF BROWN, BREWER & CO. AS AT 1ST MARCH, 19..

	£	s.	d.		£	s.	d
Sundry Creditors—				Cash in hand .	47	16	4
Carter & Co. .	284	11	6	Sundry Debtors—			7
Donaldson & Dove	177	18	6	H. Barber & Son	198	17	1
Bank . . .	1,000	–	–	B. Bastide .	374	16	–
John Brewer—				Bills Receivable .	1,000	–	–
Capital Account .	10,000	–	–	Stock in Trade .	4,841	–	–
				Motor Lorries .	1,000	–	–
				Freehold Property	4,000	–	–
	£11,462	10	–		£11,462	10	–

The Transactions during the month were—

19..			£	s.	d.
Mar.	4.	Sold Goods to Beedale & Son	476	4	4
	6.	A Bill Receivable in hand on 1st March for £500 due this day, accepted by B. Bastide, is, at his request, renewed for a further period of three months, B. Bastide agreeing to accept liability for interest at 5% per annum. A bill stamp in stock is used for drawing the new bill, which is to include the interest, and it is duly accepted by B. Bastide, and the cancelled bill surrendered to him. The cost of the bill stamp is borne by John Brewer.			

19.			£		
Mar	7.	Bought goods from Beedale & Son	264	3	3
	8.	Accepted draft drawn by Carter & Co., the balance of their account being allowed as discount	280	–	–
	11.	Bought new trailer for motor lorries, and paid therefor by cheque	100	–	–
	13.	Discounted at Bank Bill Receivable for £506 5s., the Bank charging £6 for discounting.			
	16.	Received from Beedale & Son a cheque in settlement to date, discount being allowed at 5% on the amount due for goods sold to them, and at the same rate on the amount owing for goods bought from them. Cheque was paid into Bank.			
	18.	Received cheque from H. Barber & Son in payment of their account	198	17	7
	19.	Paid into Bank	200	–	–
	21.	Received from Beeston & Son in respect of a bad debt written off previously	10	10	–
	24.	Paid Wages in cash after deducting 8s. 4d. for National Health and Unemployment Insurance	15	4	–
		Paid for National Health and Unemployment Stamps		15	10

3. *A* consigned to *B* goods costing £400. *A* paid forwarding charges amounting to £22, and drew a Bill on *B* for £350. *B* rendered to *A* an Account Sales showing that the goods had realized £480, and deducting for expenses paid and commission £34. Construct the Consignment Outwards Account, Bills Receivable Account, and *B*'s account in the books of *A*.

4. How would you correct the following errors discovered in a set of books?—

(*a*) £20 posted from the Sales Day Book to the debit of A. Wilson which should have been debited to A. Watson.

(*b*) An invoice amounting to £53 6s. 4d. received from B. Benson has been entered in the Purchase Day Book and posted to the credit of B. Benson. It is subsequently discovered that the addition of the invoice is £10 more than the correct amount owing to an over-addition.

(*c*) Discount at 5% has been taken by J. Bean, a customer, on paying a debt of £100, and has been passed through the Cash Book. The rate of discount should have been restricted to 2½%, and J. Bean agrees to pay the excess discount taken.

5. A bill of exchange drawn by you on C. Carlton for £500 has been discounted by you with your bankers. C. Carlton files his petition in bankruptcy. What steps would the Bank take on learning of the bankruptcy, and what entries be would necessary in your books in connection with the action of the Bank?

6. Explain the following terms in connection with limited companies—

(*a*) Nominal Capital.
(*b*) Paid-up Capital.
(*c*) Par value of Shares.
(*d*) Market value of Shares.

NORTHERN COUNTIES TECHNICAL EXAMINATIONS COUNCIL

(Fourth Year)

Book-keeping (*C*. 4)

Part I

1. Rule a tabular Cash Book suitable for a professional man (e.g. a doctor or solicitor), who passes all cash and bank items through the same Cash Book. Make four entries on each side, balance the book and bring down the balances.

2. You are required to prepare the Balance Sheet of a limited company as on the 31st December, 19.., from the following information: The Alma Manufacturing Company, Limited, was formed in December, 19.., with a nominal capital of £80,000 in ordinary shares of £1 each. Up to and including 31st December, 19.., 50,000 shares had been issued and fully paid with the exception of 2,000 shares on which 2s. 6d. per share was still unpaid. Cash in hand £100, Cash at bank £3,400, Investments £4,000, Sundry Debtors £16,071, Leasehold property £6,700, Stock in hand £36,297, Plant and machinery £7,800, Goodwill £10,000, Reserve for Bad and Doubtful Debts £800, Sundry Creditors £29,000, Interim dividend paid £4,975, Profit for the year ending 31st December, 19.., £9,793.

3. State how you would distinguish between Capital and Revenue Expenditure. Why is it so important that this distinction should be observed?

4. The following is a Balance Sheet of the firm of A and B as on the 31st January, 19... The profits are shared as to A three-fourths and B one-fourth.

Liabilities		*Assets*	£
Loan from W. James .	200	Cash at Bank . .	198
Sundry Creditors . .	660	Stock in hand . .	430
Reserve Account . .	140	Sundry Debtors .	550
Capital Accounts—A .	1,800	Furniture and Fixtures	219
B .	600	Land and Buildings .	2,003
	£3,400		£3,400

It was decided to dissolve the partnership and realize the assets, and the following arrangements were made. It was agreed that A should take over the land and buildings for £1,800, and B should take over the stock in hand at a discount of 10%. The debtors realized £405, and the furniture and fixtures £169. The expenses of the realization amounted to £76. You are required to set out the accounts so as to show the result of the realization.

5. On 1st November, 19.., Horrocks & Co., Ltd., of Manchester, shipped per the S.S. *Lancaster* "on consignment" to Alva & Co., Buenos Aires, 5 bales of piece goods which were invoiced to them *pro forma* as follows: 5 bales of 20 pieces each (80 yd. in each piece) printed goods at

1s. 3d. per yard. The following expenses were paid by the consignors: Packing charges £1 10s.; Shipping charges and freight £2 10s.; Marine insurance 10s. Under date 26th January following, Messrs. Alva submitted an A/S showing the consignment to have realized £560 gross, and showing the following deductions for expenses: Customs duty £5 16s.; Landing charges £1; Fire insurance £2; Warehousing £1 2s.; and their own commission of 5% on gross sales. A demand draft on the Anglo-South American Bank was enclosed. Show the whole of the entries which are necessary, and close off the accounts in the books of the consignors ONLY.

Part II (*Compulsory*)

The following balances were extracted from the books of Messrs. Milner and Mercer on 31st December, 19.., after a full year's trading—

Dr.	£	*Cr.*	£
Land and Buildings	6,300	Loan from H. Wilson at 5%	4,000
Machinery and Plant	6,250	Sales	20,465
Office Furniture	130	Rent from garage	41
J. Milner, Current A/c	378	Reserve for Doubtful Debts	138
W. Mercer ,,	141	Discount	387
Purchases	14,187	Sundry Creditors	1,515
Wages	4,544	Bank	328
Office Salaries	189	Bills Payable	338
Travellers' Salaries	432	Capital Accounts—	
Rates and Insurance	121	J. Milner	8,600
Discount	1,064	W. Mercer	5,600
Repairs	248		
Gas and Water	184		
Commissions	123		
Travelling Expenses	269		
Bank Charges	68		
Returns inward	143		
Trade Expenses	179		
Stock in hand, 1st Jan.	3,611		
Sundry Debtors	2,706		
Cash in hand	5		
Interest A/c	140		
	£41,412		£41,412

From the above particulars you are required to prepare Trading and Profit and Loss Accounts, and a Balance Sheet, after taking into account the following adjustments, etc.: The partners share profits and losses equally after being credited with interest on their respective capital accounts at the rate of 5%. No interest on current accounts. Depreciate the machinery and plant at the rate of 5%. The reserve for doubtful debts must be made equal to 5% of the sundry debtors. The stock in hand on 31st December, 19.., was valued at £7,050.

NORTHERN COUNTIES TECHNICAL EXAMINATIONS COUNCIL

(FOURTH YEAR)

BOOK-KEEPING (*C.* 4)

Part I

1. Black and White are in partnership. No partnership deed has been prepared, and no agreement entered into with regard to the sharing of profits or interest on capital. Any loans were to be allowed 4% interest. Black contributed £4,000 capital, and a loan of £1,000, and White contributed £1,000 capital. Prior to charging any interest, the profits of the partnership for the year 19.. amounted to £960. Show by means of an account the division of profits between the partners.

2. A.B. is a Builders' Merchant who has simply kept memoranda of his business transactions. You are required to point out the steps he must take to put his records on such a footing that proper annual accounts can be prepared at the end of the period.

3. Explain the following in connection with limited companies: Nominal Capital; Subscribed Capital; Mortgage Debentures; Debenture Discount Account.

4. A and B enter into a venture to purchase a cargo of timber from Kotka. The expenses, profits or losses, are to be shared equally. It is arranged that A should make the purchase, and B undertake the selling. A purchased a parcel valued at £4,800, and B at once paid half this amount to A. The following expenses were incurred by A: freight, £160; unloading, £70; cartage, £93. Sundry expenses incurred by B—£30. The timber was sold by B for £6,500, payable by bill at three months, which he immediately discounted at the rate of 5% per annum. You are required to prepare accounts as they would appear in A and B's ledgers when the venture was completed.

5. What is meant by (*a*) an Income and Expenditure Account, (*b*) a Receipts and Payments Account? Point out the differences between these two accounts.

Part II (*Compulsory*)

The following balances were extracted from the books of Messrs. Baldwin and Suthers, Clothing Manufacturers, on 31st December, 19..—

Dr.	£	*Cr.*	£
Land and Buildings	19,200	Sundry Creditors	9,860
Machinery	9,400	Dividends	95
Investments	1,800	Bank Overdraft	1,925
Stock in hand, 1st Jan., 19..	2,980	Bills Payable	2,232
Purchases	24,280	Sales	39,620
Repairs	380	Returns outwards	340
Bills Receivable	560		
Discount	902		
Interest	85		
Carried forward	59,587	Carried forward	54,072

	£		£
Brought forward	59,587	Brought forward	54,072
Office Expenses	430	Capital Accounts—	
Salaries	860	1st Jan., 19..—	
Cash in hand	20	A. Baldwin	15,675
Trade Expenses	170	B. Suthers	10,450
Rent and rates	630		
Sundry Debtors	13,200		
Manufacturing wages	4,180		
Returns inwards	120		
A. Baldwin Drawing A/c	600		
B. Suthers ,,	400		
	£80,197		£80,197

From the above particulars you are required to prepare the final accounts and a Balance Sheet as on the 31st December, 19... The following information and adjustments must be taken into account: Stock in hand, 31st Dec., 19.., £2,800; reserve 5% on debtors for doubtful debts; depreciate land and buildings 2½% and machinery 10%. Credit the partners with 5% interest on their capitals at the commencement of the period. Partners share profits and losses on the basis of their capital accounts on 1st Jan., 19...

NORTHERN COUNTIES TECHNICAL EXAMINATIONS COUNCIL

(Fourth Year)

Book-keeping (*C*. 4)

Part I

1. When preparing the final accounts of a business you find that there are "Bills under discount" to the amount of £8,600. On going into these you find one bill for £800, which is likely to be dishonoured at maturity, but on which it is possible that a composition of about 5s. in the £ will be paid later. Explain how you would deal with these items, and show how they would appear in the accounts.

2. What is the object in making a ledger adjustment account? Set out the following items as they would appear in an account of this kind in the Sales Ledger on 31st Jan., 19..—

	£
Credit sales	35,000
Discount allowed to debtors	2,000
Cash received from debtors	21,000
Bills accepted by debtors	5,000
Bills dishonoured by debtors	500
Bad Debts written off	1,000
Credit sales returns	1,500
Sundry Debtors, 1st Jan., 19..	10,000

3. Explain the following in connection with limited companies: Deferred shares; Participating Preference shares; Ordinary shares; Calls in arrear; Preliminary Expenses.

4. X and Y are equal partners, and on 31st Jan., 19.., their Balance Sheet is as follows—

Liabilities	£	*Assets*	£
Sundry Creditors . .	500	Cash in hand . . .	50
Capital Account X . .	1,200	Sundry Debtors . .	700
" Y . .	900	Stock in hand . . .	1,300
		Plant and Machinery .	550
	£2,600		£2,600

On this date they decided to dissolve partnership, and the assets realized as follows—

	£
Sundry Debtors	600
Stock	1,100
Plant and Machinery	300
Discount received from creditors . .	20
Expenses of realization . . .	80

Make the entries necessary to complete the above, and show the ledger accounts of the partners in their final form.

5. Explain what you understand by the term "Fixed," "Floating," and "Liquid" assets. Set out the assets side of a Balance Sheet showing the items marshalled in proper order and indicate the three types mentioned above.

Part II (*Compulsory*)

The following balances were extracted from the books of Messrs. Brown & Thomas, on the 31st March, 19.., after a full year's trading—

Dr.	£	*Cr.*	£
Land and Buildings . .	4,960	Creditors . . .	1,362
Plant and Machinery .	1,036	Reserve for Bad Debts .	66
Stock in hand, 1st Apr., 19..	2,019	Sales	14,274
Debtors	1,596	Returns outwards . .	870
Purchases	9,284	Discount . . .	29
General Expenses . .	150	A. Brown, Capital A/c .	5,000
Returns inwards . .	370	B. Thomas, " . .	3,000
Manufacturing Wages .	2,001		
Rates and Taxes . .	167		
Insurance	66		
Manufacturing Expenses .	225		
Salaries	666		
Discount	39		
Cash in hand	64		
Cash at Bank . . .	658		
Drawing Accounts—			
A. Brown . . .	1,000		
B. Thomas . . .	300		
	£24,601		£24,601

From the above particulars you are required to prepare Trading and Profit and Loss Accounts, and a Balance Sheet, after taking into account the following adjustments: Depreciation on Land and Buildings 2½% ; on Plant and Machinery 10%. The reserve for bad debts is to be increased to 5% on the sundry debtors. Unexpired amounts to be carried forward: Rates £27, Insurance £16. The partnership agreement provides: (*a*) That 5% shall be allowed on partnership capital (no interest on drawings), (*b*) That the net profit shall be divided between the partners *pro rata* to the amounts to the credit of their capital accounts at the commencement of the period. Stock in hand on 31st March, 19.., £1,990.

(Fifth Year)

William Kay & Sons, Limited, was registered as a limited company in 19.., with a nominal capital of 25,000 Ordinary shares of £1 each; 22,000 of these had been issued and were fully paid with the exception of a call of 5s. per share on 3,640 shares which is still unpaid. £3,000, 6% Debentures had been issued at 97, repayable in ten years, and these were fully subscribed. In addition to the entries necessary to record the above the following balances were extracted from the books of the company on the 31st December, 19..—

Dr.	£	*Cr.*	£
Leasehold Property	3,400	Reserve Account	4,500
Plant and Machinery	8,500	Sundry Creditors	29,600
Fixtures and Fittings	700	Repairs Reserve A/c	140
Stock in hand, 1st Jan.	11,100	Purchases Returns	1,800
Sundry Debtors	34,800	Sales	61,860
Cash at Bank	3,430	Profit and Loss A/c	9,200
Cash in hand	370	Discount	860
Purchases	43,800		
Salaries	3,500		
Carriage on Sales	690		
Wages	6,820		
Trade Expenses	1,400		
Rent, Rates and Taxes	3,000		
Insurance	400		
Gas and Water	390		
Carriage on purchases	690		
Sales returns	3,400		
Bad Debts	90		
General Expenses	350		
Interest on debentures for the half year to 30 June	90		
Discount	1,270		
Interim Dividend paid	2,100		
Travellers' Commission	1,670		

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date. Before preparing the final accounts the following information

must be taken into consideration and the necessary adjustments journalized—

(*a*) The stock in hand on 31st Dec., 19.., was valued at £28,570.
(*b*) 5% depreciation is to be written off Plant and Machinery.
(*c*) Provide for half-year's interest on debentures.
(*d*) 2½% is to be reserved on both Debtors and Creditors for discount thereon.
(*e*) £100 is to be added to Repairs Reserve Account.
(*f*) The reserve account is to be increased to £10,000.

UNION OF EDUCATIONAL INSTITUTIONS

Book-keeping (*S.* 1)

Marks will be deducted for untidy work.
Details are to be shown in Sales, Purchases, and Returns Books.

Section A

1. Henry Railton is in business as a Wholesale Stationer. The following balances appeared in his books on 30th November, 19..: Plant and Machinery, £250 10s. 0d.; Furniture and Fittings, £110 0s. 0d.; Stock, £317 10s. 6d.; Sundry Debtors—T. Barker, £23 6s. 8d.; H. Whitman, £44 3s. 4d.; Sundry Creditors—C. Rayner, £50 14s. 9d.; J. Nall, £32 5s. 3d.; Cash at Bank, £123 8s. 7d.; Cash in hand, £14 0s. 11d.; Capital, £800 0s. 0d.

Enter the above balances in the Journal and post them to the Cash Book and appropriate Ledger Accounts. Record the following transactions in the subsidiary books and post them to the Ledger. Balance the accounts and extract a Trial Balance as on 31st December, 19... Cheques received are paid into Bank same day unless otherwise stated.

N.B. Trading Account, Profit and Loss Account, and Balance Sheet are NOT required.

19..
Dec. 2. Sold, on credit, to H. Whitman—
5 gross envelopes at 7½d. per dozen;
8 dozen writing pads at 9d. each.
The whole transaction subject to 15% trade discount.
3. Sent cheque in full settlement of C. Rayner's account.
4. Paid cash for repairs, £4 16s. 3d.
6. Purchased by cash, for office use, new duplicator, £7 10s. 0d.
8. Drew £20 from Bank for Office cash.
9. Paid wages in cash, £15 15s. 0d.
10. Withdrew for private purposes by cheque, £10 0s. 0d.
11. Purchased, on credit, from J. H. Smith—
6 dozen school bags at 3s. 6d. each.
Subject to 5% trade discount.
14. Cash Sales to date, £17 5s. 4d.
15. Purchased from J. Nall, on credit—
2 dozen ink stands at 7s. 6d. each.

19..
Dec. 17. Returned to J. Nall, 2 ink stands, purchased on 15th inst., as damaged.
18. Paid rent by cheque, £8 8s. od.
20. Forwarded cheque for £12, on account, to J. Nall.
21. Paid trade expenses in cash, £3 2s. 6d.
24. Received from H. Whitman cheque in settlement of his account to date, less 5% discount.
27. Sundry Cash Sales, £15 8s. 7d.
28. T. Barker having become bankrupt, a first and final dividend of 6s. 8d. in the £ was paid into the Bank.
29. Received in cash rent for warehouse sub-let, £1 5s. od.
30. Sundry Cash Purchases, £4 9s. 6d.

2. From the following Trial Balance prepare a Trading Account, Profit and Loss Account, and a Balance Sheet, as on 31st December, 19...

TRIAL BALANCE OF D. GERRARD

	Dr.	*Cr.*
	£	£
Stock (1st January, 19..)	452	
Plant and Machinery	560	
Furniture and Fittings	280	
Sundry Debtors	295	
Sundry Creditors		442
Drawings	50	
Purchases	1,675	
Sales		2,587
Returns Outwards		35
Returns Inwards	73	
Manufacturing Wages	381	
Carriage Outwards	27	
Discount (balance)		58
Bad Debts	89	
Insurance	54	
Trade Expenses	13	
Rates and Taxes	107	
Commission	36	
Cash at Bank	196	
Cash in hand	34	
Capital (D. Gerrard)		1,200
	£4,322	£4,322

10% depreciation to be written off Plant and Machinery, 7½% depreciation to be written off Furniture and Fittings. Stock on hand, 31st December, 19.., valued at £432.

UNION OF EDUCATIONAL INSTITUTIONS

Book-keeping (*S.* 1)

Marks will be deducted for untidy work.
Details are to be shown in Sales, Purchases, and Returns Books.

Section A (*Compulsory*)

1. Henry Egerton is in business as a Wholesale Stationer. The following balances appeared in his books on 30th November, 19.. : Cash in hand, £5 12s. 8d.; Cash at Bank, £179 10s. 6d.; Stock, £295 15s. 7d.; Freehold Premises, £221 11s. 9d.; Plant and Machinery, £145 2s. 6d.; Furniture and Fittings, £66 4s. 8d.; Sundry Debtors—L. Brown, £125 13s. 4d.; T. White, £73 10s. 0d.; Sundry Creditors—R. Green, £77 5s. 0d.; J. Reid, £35 16s. 0d.; Capital, £1,000.

Enter the above in the Journal and post them to the Cash Book and appropriate Ledger Accounts. Record the following transactions in the subsidiary books and post them to the Ledger. Balance the Account and extract a Trial Balance as on 31st December, 19...

N.B. Trading Account, Profit and Loss Account, and Balance Sheet are NOT required.

19..

Dec. 2. Drew £10 from Bank for Office Cash.
4. Received cheque £56 from L. Brown on account.
5. Withdrew £25 by cheque for private purposes.
7. Paid in cash £4 6s. 8d. for repairs to premises.
8. Bought on credit from L. Brown—
   ½ gross bottles blue-black ink at 8s. 6d. per doz.
   9 dozen writing sets at 1s. 3d. each.
   The whole transaction subject to 7½% trade discount.
10. T. White forwarded cheque for £70 in full settlement of his account to date.
11. Endorsed White's cheque in favour of R. Green, and forwarded same to him together with £3 in cash, being allowed discount £4 5s. 0d.
12. Sent cheque £5 as loan to J. Smith.
14. Sold, on credit, to T. White—
   5 dozen shorthand notebooks at 2½d. each.
   3 dozen inkstands at 3s. 6d. each.
   The whole transaction subject to 5 per cent trade discount.
14. Paid trade expenses in cash, £2 10s. 6d.
15. Sold to H. Bookman and Co.—
   7 dozen writing tablets at 10½d. each.
   5 dozen fountain pens at £2 10s. 6d. per dozen.
16. Purchased by cheque new safe for office, £8 8s. 0d.
17. Received cheques from J. Smith for £3 0s. 0d. in part repayment of loan and for £12 10s. 0d. in payment of rent for offices sub-let.
18. H. Bookman returned 1½ dozen fountain pens purchased on the 15th instant, as not being as ordered.

19..
Dec. 19. Drew £25 from the Bank for Office Cash.
21. Paid wages, £18 13s. 4d. in cash.
24. Purchased, on credit, from R. Green—
1 gross X.L. pencils at 9d. per dozen.
28. H. Bookman became bankrupt and a first and final dividend of 6s. 8d. in the £ was paid into the Bank.
30. Cash Sales for month, £9 17s. 6d.

2. From the Following Trial Balance prepare a Trading Account, Profit and Loss Account, and a Balance Sheet, as on 31st December, 19...

TRIAL BALANCE OF DONALD E. GRAHAM

	Dr £	*Cr.* £
Capital Account (D. E. Graham)		2,000
Cash in hand	23	
Cash at Bank	219	
Stock (1st January, 19..)	1,675	
Plant and Machinery	865	
Furniture and Fittings	148	
Sundry Debtors	345	
Sundry Creditors		537
Purchases	5,684	
Sales		7,243
Purchases Returns		195
Sales Returns	237	
Rent and Rates	176	
Discount Account (*Cr.* balance)		78
Wages	159	
Insurance	65	
Bad Debts	123	
Trade Expenses	97	
Commission	237	
	£10,053	£10,053

2½% depreciation to be written off Plant and Machinery, 5% depreciation to be written off Furniture and Fittings. Stock on hand, 31st December, 19.., valued at £1,485.

UNION OF EDUCATIONAL INSTITUTIONS

BOOK-KEEPING (*S.* 2)

Careless and untidy work will involve a loss of marks.

Section A

1. A. Johnson, B. Campbell, and C. Orr are partners trading as Importers and Agents under the style of "Johnson and Co." They share profits in the ratio ½, ⅓, ⅙.

The following list of balances, extracted from their books as on 31st December, 19.., is complete, with the exception that the balance of Bank Account has been left out—

	£
Capital Account: A. Johnson	2,777
„ „ B. Campbell	3,020
„ „ C. Orr	1,482
Drawings Account: A. Johnson	1,200
„ „ B. Campbell	840
„ „ C. Orr	720
Cash in hand	17
Purchases	11,860
Sales	16,923
Stock, 1st January, 19..	4,530
Allowances received on Purchases	171
Sales Returns and Allowances	92
Carriage	311
Rent and Rates	377
Salaries and Travellers' Commissions	1,642
Customs Duty	926
Commissions Earned	2,482
Sundry Expenses	139
Freight and Marine Insurance	332
Bank Charges and Interest	36
Bad Debts	140
Bad Debts Reserve, 1st January, 19..	223
Discounts Allowed	362
Discounts Received	288
Stationery and Advertising	95
Bills Payable	791
Depreciation	83
Sundry Debtors	7,073
Bills Receivable	27
Interest Receivable	14
Sundry Creditors	2,838
Motor Vans	225
Furniture and Fittings	152

You are required to prepare a Trial Balance, Trading and Profit and Loss Accounts, and Balance Sheet, noting that—

(*a*) The item Carriage includes £95 for Carriage Inwards.

(*b*) The Stock as at 31st December, 19.., is valued as follows: Cost Price, £5,021; Market Value, £4,705.

(*c*) There are outstanding expenses as follows: Freight, £47; Travellers' Commissions, £28.

(*d*) There is a considerable quantity of unused stationery, valued by the partners at £31.

(*e*) The new Bad Debts Reserve is to be 3% of the Sundry Debtors, including Bills Receivable.

(*f*) The item "Depreciation" is made up as follows: Furniture and Fittings, 5% on £160; Motor Vans, 25% on £300.

Journal entries are NOT required, but great attention should be paid to the order in which the items are arranged in the Trading and Profit and Loss Accounts and Balance Sheet.

2. Watson and Co., of London, consigned to Stevenson Bros., of Cape Town, for sale, goods which cost £1,240, but were invoiced *pro forma* at £1,590. Watson and Co. paid freight £83 and insurance £21. In due course, Stevenson Bros. sent an Account Sales showing that part of the goods had been sold for £1,210 and that their charges were £98, *plus* a commission of 4% on the gross proceeds. They also sent to Watson and Co. a sight draft for the amount due.

Show the Account Sales and the necessary accounts in Watson and Co.'s Ledger, noting that the unsold goods were valued at £573.

Section B

3. On 1st September, 19.., A draws a bill for £2,000 on B at three months' date. B accepts the bill on the same day, and A at once discounts it at 5% per annum, remitting the proceeds (less discounting charges) to B. At maturity, B is unable to meet the bill, and A sends him a cheque to enable him to take it up.

Record the transactions in A's books by means of Journal entries only. (Work out discount charges in months only.)

4. Explain the following terms—

(*a*) Joint Venture.
(*b*) *Del credere* commission.
(*c*) Bank Pass Book.
(*d*) Statement of Account.

5. Describe three methods of writing off depreciation, and compare their merits.

6. (*a*) What are Departmental Accounts?
(*b*) What are the advantages of such Accounts?

UNION OF EDUCATIONAL INSTITUTIONS

Book-keeping (*S.* 2)

Careless and untidy work will involve a loss of marks.

Section A

BOTH questions in this section should be attempted.

1. D. Sinclair and B. Clark are partners sharing profits and losses three-fifths and two-fifths respectively.

On 31st March, 19.., the balances in their books were as follows—

	£
Sinclair, Capital Account	6,883
,, Drawings Account	1,800
Clark—Capital Account (*Dr.* balance)	230
,, Drawings Account	1,200
Plant and Machinery	2,600
Furniture and Fixtures	180

	£
Stock, 1st April, 19..	3,742
Creditors	3,814
Debtors	5,019
Bills Receivable	171
Cash in hand	122
Cash at Bank	977
Bad Debts Reserve	85
Rent and Rates	230
Purchases, less Returns	5,043
Insurance	34
Manufacturing Wages	3,900
Carriage Inwards	168
Discounts Allowed	387
,, Received	82
Salaries	720
Sundry Manufacturing Expenses	870
Sundry Expenses (other than Manufacturing)	116
Sales, less Returns	16,645

Draw up a Trial Balance as at 31st March, 19..; then prepare Trading and Profit and Loss Accounts and Balance Sheet, noting that—

(*a*) Stock at balancing date was valued £3,084.

(*b*) On 30th March, 19.., goods valued at £125 were returned by a customer and were taken into stock, but no record of this return was made in the books until 1st April.

(*c*) Depreciation should be written off as follows: Furniture and Fixtures, 5%: Plant and Machinery, 7½%.

(*d*) £72 of Book Debts should be written off as bad, and the Bad Debts Reserve raised to £100.

(Journal entries are NOT required.)

2. R. Macdonald and Sons, of Liverpool, consigned to A. Kofi, of Accra, goods valued £2,800. They also paid £89 for freight and other consignment expenses. They then drew on Kofi for £1,800 at 3 months date and discounted the bill with the Bank of British West Africa, the charge for discount amounting to £21.

In due course Kofi sent an Account Sales showing that the goods had been sold for £3,240, and that his expenses (including commission) amounted to £280. The Account Sales was accompanied by a sight draft for the balance due to the consignors.

You are required—

(*a*) To make out the Account Sales.

(*b*) To record all the above transactions in the books of R. Macdonald and Sons, by means of JOURNAL entries, with suitable narrations.

UNION OF EDUCATIONAL INSTITUTIONS

Book-keeping (*S.* 3)

Careless and untidy work will involve a loss of marks.

Section A

1. On 1st April, 19.., A, who has been in business for many years, takes B into partnership. The terms are that B brings in Capital £25,000 in cash, and that A's Capital be raised to £25,000, the necessary adjustment being made by opening a Goodwill Account. Thereafter, the partners' Capitals are to remain fixed at £25,000 each, and profits and losses are to be shared equally.

B duly lodges a cheque for £25,000 into the firm's Banking Account, that amount being credited to his Capital Account. The adjustment of A's Capital was not, however, effected when the following Trial Balance, extracted from their books as at 31st March, 19.., was drawn up—

	£	£
A—Capital Account, as at 31st March, 19..		15,630
B—Capital Account		25,000
A—Drawings Account	1,500	
B—Drawings Account	1,500	
Cash in hand	322	
Cash at Bank	6,737	
Rent, Rates and Insurance	1,300	
Sundry Investments	1,200	
Stock, 31st March, 19..	21,017	
Heating and Lighting	221	
Sales Ledger Adjustment Account	16,230	126
Bought Ledger Adjustment Account	23	6,674
Bills Receivable	447	
Bills Payable		873
Bad Debts Reserve—31st March, 19..		780
Reserve for Discounts on Debtors, 31st March, 19..		312
Reserve for Discounts on Creditors, 31st March, 19..	122	
Salaries	3,400	
Travellers' Commission and Expenses	2,919	
Advertising	3,600	
Legal Expenses	84	
General Expenses	1,372	
Discounts Received		937
Discounts Allowed	3,084	
Dividends Received (less Tax)		45
Horses and Vans	2,237	
Suspense Account		5
Furniture and Fittings	2,400	
Purchases, less Returns	40,932	
Sales, less Returns		70,431
Leasehold Premises	8,500	
Customs Duty	375	
Freight and Carriage Inwards	1,291	
	£120,813	£120,813

You are required to prepare Trading and Profit and Loss Account and Balance Sheet, taking the following notes into account—

(*a*) The following valuations were made for Balance Sheet purposes as at 31st March, 19..:

Stock-in-Trade, £17,334; Horses and Vans, £2,010; Advertising Matter, £120; Furniture and Fittings, £2,100; Leasehold Premises, £8,330; Sundry Investments, £1,200.

(*b*) Write off £630 of Book Debts as bad.

(*c*) The new Reserves are to be as follows: Bad Debts, £820; Discount on Debtors, £340; Discount on Creditors, £140.

(*d*) Rates and Insurance were prepaid to the extent of £110.

(*e*) The accrued liabilities were as follows: Rent, £250; Travellers' Commission, £703.

(*f*) The balance of Suspense Account represents a Bank of England note for £5 received on 29th March, 19.., unaccompanied by any means of identifying the sender.

(*g*) At 31st March, 19.., Bills of Exchange amounting to £80, which had been discounted, had not yet matured.

(Journal entries are NOT required.)

2. On 1st November, 19.., A shipped to B, on consignment, goods invoiced *pro forma* for £900, the terms being that B should be entitled to a selling commission of 4%, and should remit to A a Promissory Note payable two months from date of sale.

On 30th November, B paid £33 for consignment expenses. On 1st December, he sold the goods for £1,100 to C, on whom he at once drew at two months date for that amount. C accepted the bill. On 1st December, B sent to A an Account Sales, with his Promissory Note for the amount due.

On 25th January, 19.., C informed B that he could not honour his acceptance, and B agreed to renew it on 1st February for two months from that date, with interest at 6% per annum.

A agreed to return B's Promissory Note to him, at the same time drawing on B at two months' date from 1st February, with interest at 6% per annum.

All outstanding bills were honoured at maturity.

You are required to record these transactions in B's ledger, calculating interest in months, and ignoring stamp duty.

(Journal entries are NOT required.)

3. A bought goods from B, the details being as follows—

Date of Invoice	Amount of Invoice	Date on which payment is due
15th March	£440	18th April
21st April	£250	24th May
27th April	£400	30th June
15th May	£700	18th July

By agreement, B drew on A a bill dated 16th May (for the total amount due, *plus* stamp duty) payable to C and maturing on the average due date.

You are required to show your computation of the average due date, and to draft the bill.

UNION OF EDUCATIONAL INSTITUTIONS

Book-keeping (*S.* 3)

Handwriting will be taken into account in assessing the marks for the answers to questions and exercises.

Part I (*Compulsory*)

1. The Chromium Steel Company, Ltd., having a nominal capital of £50,000 divided into 30,000 Ordinary shares of £1 each and 20,000 6% Preference Shares of £1 each, was formed to acquire the business of C. Barnby & Son as from 1st January, 19...

The purchase consideration was fixed at £20,000, for which tangible assets to the value of £15,000 were acquired.

On 31st December, 19.., the purchase price had been discharged by the issue of £10,000 in fully paid ordinary shares, £5,000 in 7% Debentures of £100 each, and the balance in cash. 7,500 Ordinary shares had been taken up by the public and fully subscribed, with the exception of £62 10s. 0d. calls in arrear, and 10,000 Preference shares had been issued and fully subscribed.

The following balances stood in the books of the company on 31st December, 19.., in addition to those indicated by the above transactions—

	£	s.	d.
Plant and Machinery	6,150	–	–
Salaries	1,938	–	–
Directors' Fees	1,000	–	–
Investments	3,010	–	–
Fixtures and Fittings	250	–	–
Carriage Inwards	397	–	–
Fuel, Light, and Heating (Factory)	382	–	–
Freehold Factory	3,946	–	–
Wages	15,473	–	–
Manufacturing Expenses	964	10	–
Stock at 1st January, 19..	21,421	–	–
Rates and Insurance	968	–	–
Purchases	54,930	10	–
Sales	78,226	10	–
Returns Inwards	471	–	–
Returns Outwards	521	–	–
Discount Account (*Cr.*)	214	–	–
Bank Loan	2,412	–	–
Cash in hand	4,294	–	–
Creditors	20,353	–	–
Debtors	14,480	–	–
Office Expenses	647	–	–
Repairs to Buildings	686	–	–
Transfer Fees	6	–	–
Apprentices' Premiums (P. and L. Account)	250	–	–
Bad Debts	231	–	–
Reserve for Bad and Doubtful Debts	400	–	–
Interest and Bank Charges (*Dr.*)	98	–	–

	£	s.	d.
Solicitors' Fees	125	–	–
Bills Payable	5,142	–	–
Motor Lorries	2,200	–	–
Loose Tools	900	–	–

Prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet at that date.

Make provision for the following—

(1) Motor Lorries were re-valued at £1,760 and Loose Tools at £960.

(2) Depreciation—Plant and Machinery $7\frac{1}{2}$%, Fixtures and Fittings 5%.

(3) Unexpired Rates and Insurance, £119.

(4) Reserve for Bad Debts to be made up to 5% on the Debtors.

(5) Debentures interest due (12 months).

(6) Closing Stock, £14,419.

Part II

2. Exercise. The British Coal Company, Ltd., acquired a lease of a colliery from 1st January, 19.., upon the following terms: Minimum yearly rent £1,000, Royalty, 6d. per ton, with power to recoup short workings during the first five years of the lease.

Output:

1st year	15,000 tons.
2nd ,,	30,000 ,,
3rd ,,	42,500 ,,
4th ,,	45,000 ,,
5th ,,	50,000 ,,
6th ,,	95,000 ,,

Show all the relative accounts in the books of the company. Ignore Income Tax.

EAST MIDLAND EDUCATIONAL UNION EXAMINATIONS

Commercial

Book-keeping—*Grade I*

1. John Bull, a sole trader, instructs you to install a suitable system of book-keeping as from 1st January, 19.., and the following data are obtained—

	£	s.	d.
Cash	20	10	–
Bank (overdraft)	57	10	–
Stock	160	–	–
Fixtures and Fittings	180	–	–
S. States (Debtor)	80	–	–
L. A. France (Debtor)	75	–	–
P. Ireland (Creditor)	27	10	–
T. Welsh (Creditor	28	10	–

Show how you would proceed by giving the Journal entries to find his Capital, and to open the books. Make the original entries in the appropriate books for the following transactions, post to the ledger accounts and prepare a Trial Balance as at 31st January, 19..—

19..			£	s.	d.
Jan.	2.	Sold to J. Brown	50	–	–
		Purchased by J. Blue	40	–	–
		Purchased from P. Ireland	8	–	–
		Return against sale to J. Brown	5	–	–
	3.	Received from S. States, cheque	60	–	–
		Received from L. A. France cheque in full settlement	72	10	–
	9.	Sold to S. States	50	–	–
		Sold to L. A. France	40	–	–
		Returned goods to J. Blue	5	–	–
		Drew cheque payable to "Self"	100	–	–
	30.	Paid Wages	40	–	–
		Paid carriage in cash	1	5	–
		Paid rent by cheque	12	10	–
	31.	Cash Sales	14	–	–
		Lodged in bank	12	–	–
		Paid T. Welsh by cheque	27	–	–
		Discount	1	10	–
		Paid P. Ireland to account	15	–	–

2. There are a few errors in the following Trial Balance. Correct the errors and thereafter draw up a Balance Sheet, together with relative Trading and Profit and Loss Accounts. Closing Stock £900.

M. STONE. TRIAL BALANCE AS AT 31ST DECEMBER, 19..

	£	£
Stock (1st January, 19..)	800	
Capital		5,110
Cash in Bank	310	
Cash in hand	20	
Sundry Debtors	2,200	
Sundry Creditors		1,200
Sales		10,000
Purchases	3,000	
Returns Outwards	250	
Returns Inwards		140
Discount (*Dr.* Balance)	200	
Land and Buildings	3,700	
Fixtures and Fittings	200	
Plant and Machinery	1,000	
Carriage Inwards		60
Carriage Outwards	300	
Rent and Rates	300	
Wages	3,500	
Carried forward	15,780	16,510

	£	£
Brought forward	15,780	16,510
Salaries	700	
Bad Debts Reserve	250	
Bad Debts written off during year	80	
Drawings		300
	£16,810	£16,810

Provide for 5% Interest on Capital and 5% depreciation on Plant and Machinery.

3. Give the necessary Journal entries to record the following—

(a) Capital £1,000. Interest at 5% to be allowed for one year.

(b) Bad Debts Reserve is at present £160. The Sundry Debtors figure is £4,000, and you are asked to adjust the Bad Debts Reserve to make it 5% on Sundry Debtors.

(c) Provide for 10% depreciation on Plant and Machinery standing at £5,000.

(d) Purchase from A. B. of £69 was posted to A. G.'s account as £96, although the posting to the Nominal Ledger in the monthly total was correct.

(e) Sales Day Book was under-added in December, 19.., by £80.

4. (a) How would you decide whether a certain Debtor's Account in your Sales Ledger was to be regarded as bad?

(b) What is a credit note?

(c) How is it that "Insurance Premiums" unexpired is regarded as as asset?

(d) Distinguish between an Invoice and a Statement.

5. By what process of reasoning do you decide whether the balances in a list of such are to be entered on the debit or credit side of the Trial Balance?

EAST MIDLAND EDUCATIONAL UNION EXAMINATIONS

Commercial

Book-keeping—*Grade II*

1. From the following Trial Balance of John & William Smith, drawn up as at 31st December, 19.., prepare the Balance Sheet together with relative Trading and Profit and Loss Account.

Make provision for the following—

Stock 31st December, 19.., was £1,900.
5% Interest on Capital.
Bad Debts Reserve to be 5% of Sundry Debtors.
Depreciation of Furniture and Fittings 5%.
Insurance unexpired £10.
Rates accrued £25.
Profits divisible John Smith two-thirds, William Smith one-third

TRIAL BALANCE AS AT 31ST DECEMBER, 19..

	£	£
Land and Buildings	8,000	
Sales		36,000
Purchases	14,000	
Wages	12,000	
Returns Inwards	210	
Returns Outwards		160
Rates and Taxes	462	
Insurance Premiums	87	
Travelling Expenses	177	
Stock, 1st January, 19..	2,500	
Capital Account—John Smith		7,000
" William Smith		5,000
Drawings Account—John Smith	1,800	
" William Smith	1,500	
Repairs	163	
Bad Debts Reserve		50
Salaries	2,779	
Discount	174	
Bank		184
Cash	16	
Sundry Debtors	2,897	
Sundry Creditors		1,221
Miscellaneous Charges	100	
Bills Payable		100
Bills Receivable	1,450	
Furniture and Fittings	1,400	
	£49,715	£49,715

2. A. Jones consigned to John Holmes 1,200 barrels of flour at 19s. 3d. per barrel. Holmes paid freight £54, insurance £15 11s. 0d., and storage £17 7s. 8d. He sold 650 barrels at 27s. 3d. and 550 barrels at 26s. 2d. per barrel respectively, charging commission of 2½%, and forwarded a sight draft for the amount due. Write up these transactions in Jones' books.

3. Write up the Petty Cash Book for the period ended 7th March from the following particulars. The book is kept on the Imprest system, the float being £8.

19..			£	s.	d.
Feb.	28.	Balance	1	7	8
			6	12	4
Mar.	1.	Travelling Expenses		17	8
		Cartage		3	4
	2.	Postages	1	–	–
		Charwoman's Wages	1	–	–
	3.	Telegram		2	6
		Travellers' telephone expenses		5	6
		Twine		1	–

			£	s.	d.
Mar.	4.	Firewood		12	–
	5.	Tip to drayman		1	–
		'Bus Fares two clerks		2	9
		Floor Polish		1	9
		Poundage on Postal Orders		1	3
	6.	Cartage		2	8
		Telegrams		2	8
		Paper Wrappers		1	–
	7.	Newspapers			6
		Postages	1	4	6
		Dusters		1	6
		Pencils		3	–

Indicate the treatment of the individual totals.

4. Give Journal entries for the following bills of exchange transactions—

(i) (*a*) I received a bill from S Power for £100.
(*b*) I discounted the above bill, the discount charge being £2 10s. 0d.
(*c*) The bill was later dishonoured.

(ii) Criticize the following forms of bills of exchange, giving reasons. (Ignore stamp duty)—

London, 1st August, 19..

£100

Three months after date kindly pay to my order the sum of one hundred pounds sterling for value received.

J. JONES.

To Messrs. A. Smith & Co.,
Glasgow.

Liverpool, 1st August, 19..

£100.

Three days after the arrival in Liverpool Docks of S.S. *Majestic* pay to F. Sharol & Co., the sum of one hundred pounds sterling for value received.

T. SMALL & CO.

To Messrs. H. Brown & Co.,
Liverpool.

Newcastle 1st August, 19..

£100.

One month after date pay to my order the balance you still owe at that date on my loan with additional interest of three pounds.

K. KNOTT.

To George Welsh,
Newcastle.

EAST MIDLAND EDUCATIONAL UNION EXAMINATIONS

Commercial

Book-keeping—*Grade III*

1. Set forth below is the Trial Balance as at 31st March, 19.., of the Swiftwheel Engineering Co., Ltd.—

	£	£
Work in progress 31st March, 19..	4,750	
Stock of steel and stores, 31st March, 19..	10,000	
Steel Account	28,250	
General Purchases, Materials and Stores	24,750	
Freight, Carriage and Cartage	2,250	
Works direct wages	5,000	
Upkeep of Tools	450	
Local Rates	500	
Workmen's Compensation Insurance	250	
Works Oncost	1,250	
Loose Tools Stock Account	2,500	
Sales—Finished work delivered and waiting dispatch		85,000
Discount		250
Salaries	5,000	
Travelling	250	
Agency Commission and Expenses	1,750	
Property Repairs	450	
General Charges	750	
Ground and Buildings	5,000	
Machinery and Plant	4,000	
Debtors and Creditors	19,500	10,000
Reserve		7,500
Income Tax Reserve		350
Share Capital—5% Preference Shares		5,000
,, ,, Ordinary Shares		7,500
Profit and Loss Account		350
Bank		1,000
Cash	300	
	£116,950	£116,950

(*a*) Stocks as at 31st March, 19.., of steel, stores, and loose tools have been applied to their respective accounts.

(*b*) Certain boilers are waiting dispatch from works. The erected contract price thereof is included in "finished work." The cost of delivery and erection is £500.

(*c*) Work in progress as at 31st March, 19.., is £2,000.

(*d*) During the year steel material to the value of £1,250, and wages £1,250, were expended on works extension and fall to be allocated to ground and buildings account.

(*e*) Provide for depreciation on ground and buildings account at 5% (excluding extensions) and at 7½% on machinery and plant.

(*f*) Allocate to Trading Account—
  ¾ of Rates.
  ¼ of Salaries.
  All Discount Account.

(*g*) Allocate to Profit and Loss Account—
  Depreciation and property repairs.
  Additional remuneration of management.

(*h*) Provide £250 for interest accrued on bank overdraft to date of balance.

(*i*) Allow for additional remuneration of management 40% of net profit after allowing for year's dividend on preference share capital and 10% on ordinary share capital.

(*j*) Provide Income Tax reserve, 5s. per £ on net profit as brought out in Profit and Loss Account.

(*k*) Bills receivable discounted amount to £5,000.

Prepare Trading Account, Profit and Loss Account and Balance Sheet.

2. The following is an accurate abstract of the Cash Book of Thomas Todd who commenced business on his own account on 1st April, 19... He instructs you to prepare Trading and Profit and Loss Account for the year ended 31st March, 19.., from that information together with the following notes which may also be accepted as correct.

CASH BOOK.

	£
Receipts—	
Capital paid in	1,000
Loan received	1,000
Cash sales	7,161
Sundry Debtors (exclusive of Discount £210)	8,409
Bank withdrawals	16,950
Payments—	
Sundry creditors (exclusive of discount £189)	12,614
Wages and Salaries	2,106
Drawings	844
Bank lodgments	17,570
General Expenses	911
Loan Interest	75
Loan Repaid	400

Miscellaneous Notes—

Creditors and debtors at 31st March, 19.., were £896 and £1,783 respectively.

Stock sheets at 31st March, 19.., amounted to £740, but Mr. Todd instructs you to write a further 10% off this figure. Office furniture was £200 at 31st March, 19.. (being cost), and had been included in the £12,614 paid out.

3. (*a*) A, B, and C who had shared profits and losses equally, dissolved partnership as at 31st December, 19... Their capitals at that date were £10,000, £6,000, and £1,000 respectively, and the creditors amounted to £15,000. There was a loss on realization amounting to £7,000. C had no outside means. Draw up final accounts.

(*b*) Black, White, and Tartan sharing profits half, one-third, and one-sixth respectively, had capitals of £1,000, £800, and £100 respectively. There was a loss on realization of £800. Draw up final accounts.

(*c*) Partners One, Two, and Three shared profits half, one-third, and one-sixth with the proviso that Three had a guaranteed minimum of £800. The net profit for the year under review was £2,400. Show Appropriation Account.

EAST MIDLAND EDUCATIONAL UNION EXAMINATIONS

Commercial

Book-keeping—*Grade II*

1. The following are the balances appearing in the books of Messrs. A. & B., as at 31st December, 19..—

	£	£
A. Capital		7,800
B. Capital		5,800
A. Drawings	1,210	
B. Drawings	1,110	
Office Furniture	300	
Reserve		1,000
Stock 1st January, 19..	3,693	
Purchases	13,000	
Returns Outwards		350
Sales		20,000
Returns Inwards	1,000	
Motor Car	440	
Motor Car Running Expenses	260	
Discount	604	
Commission paid	420	
Creditors		6,700
Debtors	11,000	
Bad Debts	214	
Bank Overdraft		200
Bills Receivable	1,290	
Bills Payable		1,020
Rent and Rates	466	
Wages	6,700	
Salaries	916	
Heating and Lighting	152	
Audit Fee	50	
Miscellaneous Charges	20	
Cash in hand	25	
	£42,870	£42,870

Stock as at 31st December, 19.., was £4,000. Write 20% off Motor-car and provide £250 for Discounts. Provide for Interest on Capital at 5%. Profits are divisible equally. Prepare Balance Sheet as at 31st

December, 19.., together with relative Trading and Profit and Loss Account.

2. Brown, of Liverpool, consigned goods value £1,000 to Graham, of Bombay, paying Freight and Insurance amounting to £105. He drew on Graham at 90 days for £400 as an advance against the Consignment, and discounted the Bill for £392. Graham sent Account Sales for part of the goods sold amounting to (gross) £830, his expenses and commission amounting to £92 10s. The balance of stock unsold is valued (at cost) at £400. Brown received draft for 60 days for the amount due.

Show Ledger Accounts in Brown's Books.

3. Define a "Bill of Exchange."

Write out the entries necessary in Black's books to record the following transactions (Journal entries are not desired)—

On 1st November, 19.., Black sold to White goods valued at £100, and the latter accepted Black's Bill of Exchange at two months' date for the above amount plus interest at 5% per annum. On the 1st January, 19.., Black discounted the Bill, paying £1 for discount. The Bill was met at maturity.

ROYAL SOCIETY OF ARTS

Stage I—Elementary

Book-keeping

[Two and a half hours allowed.]

1. Enter the following in the proper subsidiary books—

June. 6. Received from S. Simon a cheque for £15, representing a first and final dividend of 7s. 6d. in the £. Wrote off the balance of his account.

2. On 16th May, 19.., E. Short bought from G. Long 10 dozen pairs of blankets at 22s. 6d. per pair, subject to 10% trade discount and 5% discount for cash within fourteen days. On 18th May, E. Short returned 20 pairs of blankets, and on 27th May sent a cheque to settle his account. Pass these transactions through the proper subsidiary books of E. Short, and show G. Long's account in the ledger.

3. G. Reader and A. Storey are in partnership sharing profits and losses as to two-thirds and one-third respectively. On 1st January, 19.., the total capital of the firm was £5,000, held by the partners in equal shares, and on 1st July each partner paid into the business bank account £500 as additional capital. During the year each partner drew from the business £80 at the end of each quarter. On 31st December, 19.., the credit balance of the Profit and Loss Account was £840. Show the ledger accounts of the partners as they would appear after the books had been balanced on 31st December, 19...

4. On 1st January, 19.., A. Tennant took over a shop at a rental of £240 per annum, payable quarterly. He sent a cheque to the landlord for a quarter's rent on each of the following dates: 3rd April, 19.., 2nd July, 19.., 1st October, 19.., and 5th January, 19... You are required to show the entries in A. Tennant's Rent Account up to 5th

(*b*) Black, White, and Tartan sharing profits half, one-third, and one-sixth respectively, had capitals of £1,000, £800, and £100 respectively. There was a loss on realization of £800. Draw up final accounts.

(*c*) Partners One, Two, and Three shared profits half, one-third, and one-sixth with the proviso that Three had a guaranteed minimum of £800. The net profit for the year under review was £2,400. Show Appropriation Account.

EAST MIDLAND EDUCATIONAL UNION EXAMINATIONS

Commercial

Book-keeping—*Grade II*

1. The following are the balances appearing in the books of Messrs A. & B., as at 31st December, 19..—

	£	£
A. Capital		7,800
B. Capital		5,800
A. Drawings	1,210	
B. Drawings	1,110	
Office Furniture	300	
Reserve		1,000
Stock 1st January, 19..	3,693	
Purchases	13,000	
Returns Outwards		350
Sales		20,000
Returns Inwards	1,000	
Motor Car	440	
Motor Car Running Expenses	260	
Discount	604	
Commission paid	420	
Creditors		6,700
Debtors	11,000	
Bad Debts	214	
Bank Overdraft		200
Bills Receivable	1,290	
Bills Payable		1,020
Rent and Rates	466	
Wages	6,700	
Salaries	916	
Heating and Lighting	152	
Audit Fee	50	
Miscellaneous Charges	20	
Cash in hand	25	
	£42,870	£42,870

Stock as at 31st December, 19.., was £4,000. Write 20% off Motor-car and provide £250 for Discounts. Provide for Interest on Capital at 5%. Profits are divisible equally. Prepare Balance Sheet as at 31st

December, 19.., together with relative Trading and Profit and Loss Account.

2. Brown, of Liverpool, consigned goods value £1,000 to Graham, of Bombay, paying Freight and Insurance amounting to £105. He drew on Graham at 90 days for £400 as an advance against the Consignment, and discounted the Bill for £392. Graham sent Account Sales for part of the goods sold amounting to (gross) £830, his expenses and commission amounting to £92 10s. The balance of stock unsold is valued (at cost) at £400. Brown received draft for 60 days for the amount due.

Show Ledger Accounts in Brown's Books.

3. Define a "Bill of Exchange."

Write out the entries necessary in Black's books to record the following transactions (Journal entries are not desired)—

On 1st November, 19.., Black sold to White goods valued at £100, and the latter accepted Black's Bill of Exchange at two months' date for the above amount plus interest at 5% per annum. On the 1st January, 19.., Black discounted the Bill, paying £1 for discount. The Bill was met at maturity.

ROYAL SOCIETY OF ARTS

Stage I—Elementary

BOOK-KEEPING

[Two and a half hours allowed.]

1. Enter the following in the proper subsidiary books—

June. 6. Received from S. Simon a cheque for £15, representing a first and final dividend of 7s. 6d. in the £. Wrote off the balance of his account.

2. On 16th May, 19.., E. Short bought from G. Long 10 dozen pairs of blankets at 22s. 6d. per pair, subject to 10% trade discount and 5% discount for cash within fourteen days. On 18th May, E. Short returned 20 pairs of blankets, and on 27th May sent a cheque to settle his account. Pass these transactions through the proper subsidiary books of E. Short, and show G. Long's account in the ledger.

3. G. Reader and A. Storey are in partnership sharing profits and losses as to two-thirds and one-third respectively. On 1st January, 19.., the total capital of the firm was £5,000, held by the partners in equal shares, and on 1st July each partner paid into the business bank account £500 as additional capital. During the year each partner drew from the business £80 at the end of each quarter. On 31st December, 19.., the credit balance of the Profit and Loss Account was £840. Show the ledger accounts of the partners as they would appear after the books had been balanced on 31st December, 19...

4. On 1st January, 19.., A. Tennant took over a shop at a rental of £240 per annum, payable quarterly. He sent a cheque to the landlord for a quarter's rent on each of the following dates: 3rd April, 19.., 2nd July, 19.., 1st October, 19.., and 5th January, 19... You are required to show the entries in A. Tennant's Rent Account up to 5th

January, 19.., Profit and Loss Account for the year ended 31st December, 19.., and Balance Sheet on 31st December, 19...

5. On 1st July, 19.., G. Triptree commenced business as a Furniture Dealer with £200 in the bank. He paid into the bank a further sum of £150 borrowed at 5% interest from his father, T. Triptree.

Prepare a Cash Book with three columns recording the above and the following transactions. In writing up your Cash Book, show quite clearly the ledger account to which you would post each item.

July 1. Bought a motor van for £150, which was paid for by cheque.
,, Drew cash from bank £15; bought for cash stationery and stamps £2 10s. 0d., and petrol and oil for motor van 15s.
5. Cash sales £19 5s. 0d.
,, Paid to W. Johnson & Sons by cheque the balance of their account, £89 15s. 0d., less a discount of 5%.
7. Bought by cheque 3 oak sideboards at £6 17s. 6d. each.
9. Paid in cash wages £6 10s. 0d.
11. Received a cheque for £35 from S. Holmes and accepted this in settlement of his account of £36 9s. 6d. The cheque was paid into bank.
12. Cash sales £28 2s. 6d.
14. The bank returned S. Holmes' cheque marked R/D.
,, Paid into bank £25.
16. Paid wages in cash £6 10s. 0d., and drew £5 in cash for personal expenses.
,, S. Slater, who owed £18 12s. 6d., deducted 12s. 6d. from the amount due and sent a cheque for the balance. Paid the cheque into bank and wrote to Slater saying the deduction could not be allowed.
,, Bought for cash job lot of dining-room chairs, £15.

Balance the Cash Book as on 16th July, 19.., and bring down the balance. No posting to the Ledger is required.

EXERCISE

John Baker carried on business as a manufacturer. On 30th June, 19.., the following Trial Balance was extracted from his books—

	Dr.	*Cr.*
	£	£
Machinery and Plant	576	
Office Salaries and Expenses	610	
Bad Debts	180	
Returns Inwards and Outwards	350	337
Carriage on Purchases	228	
Carriage on Sales	200	
Depreciation	75	
Manufacturing Wages	1,273	
Discounts Allowed and Received	95	170
Fixtures and Fittings	209	
Sundry Debtors and Creditors	1,627	1,224
Drawings	420	
Carried forward	5,843	1,731

	Dr.	Cr.
	£	£
Brought forward	5,843	1,731
Purchases and Sales	6,727	10,580
Cash in hand	67	
Cash at Bank	354	
Rent and Rates	286	
Stock (1st July, 19..)	2,234	
Capital (1st July, 19..)		3,200
	£15,511	£15,511

You are required to prepare Trading and Profit and Loss Accounts for the year ended 30th June, 19.., and a Balance Sheet as on that date. The Stock on hand on 30th June, 19.., was valued at £1,896.

Stage II—Intermediate

Book-keeping

1. The following is one of the accounts appearing in the nominal ledger of a trading concern which closes its books annually on the last day of February—

Rent and Rates

Date		Particulars	£	Date		Particulars	£
19..				19..			
Mar.	1.	To Balance b/d Rates	65	Mar.	1.	By Balance b/d Rent	200
	31.	„ Cash rent for three months to date	300	19..			
May	14.	„ Do. Rates to 30/9/..	320	Feb.	29.	„ Profit and Loss A/c	1,890
July	3.	„ Do. Rent	300		29.	„ Balance c/d	61
Oct.	2.	„ Do. do.	300				
Dec.	10.	„ Do. Rates to 31/3/..	366				
	31.	„ Do. Rent	300				
19..							
Feb.	29.	„ Balance c/d	200				
			£2,151				£2,151
19..				19..			
Mar.	1.	To Balance b/d	£61	Mar.	1.	By Balance b/d	£200

State shortly, and concisely, the nature of the information conveyed to you by this account, and in particular what the "balances" represent.

Also calculate how much of the figure of £1,890 represents rent and how much rates.

2. A and B are partners in the firm of A. & Co., as tailors. C is a building contractor, who owes A. & Co. £22 10s. for goods supplied.

C sends A. & Co. a cheque for £7 15s., with an accompanying statement showing an amount of £14 15s. due from A to C for work done at A's private house, and a letter saying the cheque is in settlement of the difference between the two accounts.

Show how this transaction should be recorded in the books of A. & Co.

3. Explain briefly, but as clearly as you can, why it is generally necessary, when preparing the accounts of a business, to make provision for depreciation of the "fixed assets."

If you know of any exceptions to this general rule, mention them and give your reasons.

NOTE. Goodwill is, for the purpose of this question, *not* to be regarded as a "fixed" asset.

4. State what "difference" would be caused in the books of a business by each of the following errors—

(*a*) The omission from the list of debtors' balances, compiled for the purpose of the Trial Balance, of a debt of £12 5s. due from P. & Co.

(*b*) Omission to post from the Cash Book to the Discount Account the sum of £5 7s. 6d., representing discounts allowed to debtors during July.

(*c*) Omission to make any entry in respect of an allowance of £8 10s. due to Q. & Co. in respect of damaged goods.

(*d*) Posting an item of wages paid, correctly entered as £31 15s. in the Cash Book, as £31 5s. in the Ledger Account.

(*e*) Posting £2, being cash received from the sale of an old office typewriter, to the *debit* side of "Office Equipment" account.

NOTE. These errors are to be taken as affecting different sets of books having no relation one to another.

5. P. Ltd. is a manufacturing company, having an authorized capital of £160,000, divided into 50,000 7% preference shares, 100,000 ordinary shares, and 10,000 deferred shares, all of £1 each.

The following was the Trial Balance extracted from the books as on 31st January, 19..—

TRIAL BALANCE

	£	£
30,000 Preference Shares, fully paid		30,000
70,000 Ordinary Shares, 15s. called		52,500
Calls in Arrear (on Ordinary Shares)	250	
10,000 Deferred Shares, fully paid		10,000
General Reserve		10,000
Purchases, less Returns	39,207	
Bought Ledger Balances		3,595
Sales, less Returns		73,930
Sales Ledger Adjustment Account	11,449	
Wages and Salaries—Factory	15,372	
,, ,, ,, Office	1,146	
Travellers' Salaries and Commission	3,530	
Rent (Factory 9/10ths, Office 1/10th)	2,200	
Carriage Inwards	332	
Carriage Outwards	519	
Factory, Power and Expenses	2,370	
Rates, Heating, Lighting and Insurance—Factory	1,942	
,, ,, ,, ,, ,, Office	227	
Machinery and Plant—1st February, 19..	58,200	
,, ,, ,, Purchased during year	3,000	
Manufactured Stock, 1st February, 19..	21,518	
Raw Materials, 1st February, 19..	5,163	
Postage, Stationery, and Office Expenses	510	
Office Fixtures and Fittings	620	
Legal Expenses and Audit Fee	325	
Directors' Fees	1,000	
Carried forward	168,880	180,025

	£	£
Brought forward	168,880	180,025
Advertising	2,370	
Bank Interest		146
Discount		512
Dividends Unpaid		141
Interest on Calls in Arrear		25
Preliminary Expenses	2,100	
Profit and Loss Account—Balance, 1st Feb., 19..		11,242
Dividends Paid—		
On Preference Shares, year to 31st Jan., 19..	2,100	
On Ordinary Shares—Final for year to 1st Feb., 19..	3,150	
On Ordinary Shares—Interim on account of year to 31st January, 19..	2,100	
On deferred Shares for year to 31st Jan, 19..	2,000	
Cash at Bank	9,146	
Cash in hand	245	
	£192,091	£192,091

You are required to prepare a Manufacturing Account and a Profit and Loss Account for the year ended 31st January, 19.., and a Balance Sheet as on that date, taking into consideration the following information and instructions—

(*a*) The Trial Balance of the Sales Ledger was as follows—

	£	£
Debit Balances	11,592	
Credit Balances		143
General Ledger Adjustment Account		11,449
	£11,592	£11,592

(*b*) Manufactured stock on hand on 31st January, 19.., was valued at £29,310, and raw materials were valued at £7,369.

(*c*) Depreciation on the old Plant and Machinery is to be written off at 8% and on the new at 5%, and the Office Fixtures and Fittings are to be depreciated 5%.

(*d*) Unused Office Stationery, Stamps, etc., were valued on 31st January, 19.., at £19.

(*e*) £200 is to be reserved for rent due and unpaid, and £46 for travellers' commission.

(*f*) Half the balance of Preliminary Expenses is to be written off.

Stage II—Intermediate

BOOK-KEEPING

1. **Explain why, where persons are trading in partnership, it is customary to credit each partner with interest on his capital before the balance of profit is ascertained and divided.**

If there is any particular case where you consider such a provision might equitably be dispensed with, describe it and state shortly your reason for making this exception to the general rule.

2. The following errors are discovered in the books of a business concern—

(*a*) £47 10s. paid for new office furniture has been charged to Office Expenses.

(*b*) £39 3s. 6d., representing a monthly total of discounts allowed to debtors, has been posted from the debit side of the Cash Book to the *credit* of Discount Account.

(*c*) An entry of £10, representing the retail value of goods returned to X & Co., wholesalers, has been made in the Returns Outwards Book and posted. The amount should have been £7, the invoiced value of the goods in question.

Show the entries necessary to correct these errors. The original wrong entries are not to be deleted. Subject to this restriction, make the corrections in whatever form you consider most appropriate.

3. Explain what is meant by the issue of Debentures (*a*) at a premium, (*b*) at a discount.

In February, 19.., Universal Stores, Ltd., offered for subscription 1,000 7% Debentures of £100 each at the issue price of 94, payable £5 per Debenture on application, £50 on allotment, and the balance on 1st May, 19... Interest was to be payable half-yearly, on 30th June and 31st December, the first coupon, payable on 30th June, 19.., being for 2%. The issue was fully taken up.

Set out any items relating to the above which should appear in the Company's Profit and Loss Account for the year ending 31st December, 19.., or the accompanying Balance Sheet, assuming that half the discount is written off.

4. The following is an extract from the "Adjustment Account" in one of the sales ledgers of a business which balances all its ledgers monthly—

			£	s.	d.				£	s.	d.
Feb.	28.	To Cash	4,518	15	6	Feb.	1.	By Balance b/d	9,172	3	1
,,		,, Discount	209	17	2		28.	,, Sales	4,321	5	–
,,		,, Returns	57	10	–	,,		,, Carriage	43	1	3
		,, Balance c/d	8,762	16	8	,,		,, Transfer K-P Sales Ledger	12	10	–
			£13,548	19	4				£13,548	19	4
						Mar.	1.	By Balance b/d	£8,762	16	8

Explain the meaning of each of the items appearing in this account, and state from which books the several entries are posted.

5. Smith, Jones, and Robinson are trading in partnership under the name of Smith & Co., accounts being prepared annually as on 31st March. Smith and Jones are partners of old standing, but Robinson had joined the firm on 1st April, 1929, and as he had not then been able to contribute any cash towards payment for goodwill, it had been agreed to raise a goodwill account for £8,000 (crediting this amount to the old partners), and to write this off out of profits by equal instalments over

five years. Smith and Jones were to be at liberty, if they should so desire, to make annual capital withdrawals of £1,000 and £600 respectively during the same period.

Interest at 5 per cent per annum was to be allowed on partner's capital accounts, but not on current or drawing accounts. The divisible profits were to be divided in the proportion Smith 9/20ths, Jones 7/20ths, and Robinson 4/20ths.

The following Trial Balance was extracted from the firm's books as on 31st March, 19..—

TRIAL BALANCE

	£	£
Smith—Capital Account, 1/4/19..		28,000
Capital withdrawn, 30/9/19..	1,000	
Jones—Capital Account, 1/4/19..		16,400
Capital withdrawn, 30/9/19..	600	
Robinson, Capital Account, 1/4/19..		1,000
Current Accounts, 1/4/19..—Smith		573
Jones		14
Robinson		209
Drawings during year—Smith	3,000	
Jones	2,500	
Robinson	800	
Goodwill	4,800	
Trading Account		19,496
Salaries and Wages	1,992	
Rent and Rates	1,214	
Heating, Lighting and Insurance	278	
Apprentices' Premiums		350
Furniture and Fittings, 1/4/19..	940	
Furniture and Fittings Bought, 30/9/19..	80	
Motor-cars and Vans, 1/4/19..	3,520	
Motor-cars and Vans Bought, 30/9/19..	900	
Advertising	2,040	
Bank Interest		58
Discount	803	
Travellers' Salaries and Expenses	3,507	
Sundry Debtors and Creditors	18,640	1,314
Bills Payable		750
Office Expenses	319	
Stock, 1/4/19..	19,622	
Bad Debts Reserve, 1/4/19..		814
Bad Debts Written off	611	
Cash at Bank and in hand	1,812	
	£68,978	£68,978

You are required to prepare the firm's Profit and Loss Account for the year ended 31st March, 19.., and a Balance Sheet as on that date, taking into account the following information and instructions—

(*a*) Depreciation is to be written off the Furniture and Fittings at the rate of 5% per annum and the Motor-cars and Vans at 20% per annum.

(*b*) The Bad Debts Reserve is to be made up to 5% of the Sundry Debtors.

(*c*) Information from the bank shows that since 31st December, 19.., when interest was last credited, further interest has accrued amounting to £21.

(*d*) £500 of the advertising expenditure is to be carried forward, and £150 of the apprentices' premiums.

Stage II—Intermediate

Book-keeping

1. X, Y, and Z are in partnership, and throughout the year 19.. their Capital Accounts (entitled to interest at 5 per cent per annum) have remained unchanged at £6,000, £4,000, and £3,000 respectively. The firm's books have been written up to 31st December, 19.., but no closing entries or adjustments made.

Set out, in Journal form, the entries necessary to adjust the following matters—

(*a*) The year's interest on capital due to the partners.

(*b*) Goods valued at £67 10s. 0d. (at cost) which have been taken from stock by X for his own use, no entry in connection therewith having been passed through the books.

(*c*) An amount of £37 10s. 0d. included in the Wages Account, representing wages paid to workmen in respect of time spent in repairing the firm's own machinery.

2. The following is the Trial Balance (summarized so far as concerns the assets and liabilities) of X & Co., drawn up as on 31st March, 19...

	Dr.	*Cr.*
	£	£
Purchases	15,427	
Sales		24,261
Returns Outwards		219
Returns Inwards	437	
Carriage Inwards	714	
Carriage Outwards	529	
Rent and Rates	2,060	
Heating, Lighting, and Insurance	530	
Factory Wages	3,172	
Office Salaries	1,545	
Office Expenses	456	
Postage, Stationery, and Telephone	246	
Advertising	1,120	
Bad Debts Written Off	118	
Bad Debts Reserve, 1st April, 19..		500
Legal Charges	720	
Stock, 1st April, 19..	3,192	
Carried forward	30,266	24,980

	Dr.	Cr.
	£	£
Brought forward	30,266	24,980
Other Assets	25,195	
Capital and Liabilities		30,015
Dividends on Investments		120
Discount		346
	£55,461	£55,461

You are required to draw up the Manufacturing and Profit and Loss Accounts for the year ended 31st March, 19.., making adjustments to give effect to the following—

(*a*) The Stock valuation, taken in the ordinary way at cost on 31st March, 19.., was £5,390, but in view of falling prices it was decided to write the whole of this down by 10%.

(*b*) The following amounts are to be reserved for expenses accrued and unpaid—

Rent	£350
Office Expenses	38

(*c*) The existing Bad Debts Reserve is to be increased by £100.

(*d*) The items of Rent and Rates, Heating, Lighting, and Insurance are to be apportioned 9/10ths to the Factory and 1/10th to the Office.

(*e*) £720 is to be provided for depreciation of Machinery and £37 for depreciation of Office Furniture and Fittings.

(*f*) The item of legal charges is the balance of an amount of £1,200 incurred in connection with an action in Court two years ago, which it was agreed to write off in equal instalments over five years.

3. The following is a list of the balances remaining in the books of Gamma Delta, Limited, after the Profit and Loss Account for the year to 30th April, 19.., has been written up and closed off—

	£
Preference Shares, 1st May, 19.. (Authorized 50,000 of £1), 25,000 10s. paid	12,500
Call on above, 5s. per Share	6,250
Calls unpaid on above	40
Ordinary Shares, fully paid (Authorized, 100,000 of £1)	80,000
Deferred Shares, fully paid (Authorized, 100,000 of 2s.)	8,000
Five per cent Debentures	36,000
Goodwill	10,000
Discount on Issue of Debentures	3,000
Sundry Debtors	40,939
Sundry Creditors—Trade	5,191
Freehold Premises	17,500
Sundry Creditors—Expenses	291
Rates paid in advance	316
Plant and Machinery	52,500
Fixtures and Fittings	635
Stock	19,873
Work in Progress	3,583
Bad Debts Reserve	1,000

Profit and Loss Account, 1st May, 19.. (*Cr.*) . . .	2,492
Final Dividend on Preference Shares paid to 30th March of the previous year	375
Profit and Loss Account, Year to 30th April, 19.. (*Dr.*) .	5,946
Bank Overdraft	3,124
Cash in hand	141

You are required to draw up the Balance Sheet of the Company as on the closing date.

ROYAL SOCIETY OF ARTS

Stage II—Intermediate

Book-keeping

1. (*a*) Define Single Entry and state briefly the disadvantages of this system.

(*b*) A manufacturer, Philip Morgan, kept his books on what is known as the Single Entry system. The position of the business at the 31st December, 19.., revealed the following—

	£
Freehold Premises	1,000
Plant and Machinery	600
Stock in Trade	1,300
Sundry Debtors	1,750
Cash at Bank	300
Sundry Creditors	1,875

At the 1st January, 19.., his capital was £5,500.

During the year following his Drawings amounted to £500, and the sale of his private motor-car realized £200, which he paid into the business bank account.

You are required to prepare the Statement of Affairs showing the financial position of Philip Morgan as at the 31st December, 19.., compile his Capital Account at that date and ascertain his Profit or Loss for the year.

2. Briefly explain the following—

(*a*) Debenture, (*b*) Reserve Fund, (*c*) Collateral Security, (*d*) Preference Shares, (*e*) Fictitious Assets.

3. George Wright and Henry Dobson enter into partnership, upon equal terms, to acquire the business carried on by Amos Atkinson. The business was taken over as at 1st January, 19.., on the basis of the last certified Balance Sheet, which was as follows—

Balance Sheet of Amos Atkinson as at 31st December, 19..

Liabilities	£	*Assets*	£
Capital Account—		Freehold Premises .	14,200
Amos Atkinson . .	26,000	Plant and Machinery .	8,100
Sundry Creditors . .	3,400	Furniture and Fittings .	600
Reserve for Bad Debts .	300	Stock in Trade . .	4,100
		Sundry Debtors . .	2,700
	£29,700		£29,700

The purchase price was agreed at £28,000, and was paid in equal shares by Wright and Dobson direct to Atkinson. A Bank Account was opened in the name of the firm, into which each partner paid the sum of £1,000. For the purpose of the partnership the Assets were revalued and the following reductions in value were made—

Plant and Machinery £500, Stock £450, and Furniture and Fittings £200.

A Goodwill Account is to be raised in the partnership books for the difference between the total purchase price paid and the amended valuation.

You are required to make the Journal entries necessary to record the above transactions in the books of Messrs. Wright and Dobson and prepare Balance Sheet as at the commencement of the new partnership.

4. The "X" Company, Limited, was registered with a Nominal Capital of £50,000, divided into 25,000 5% Preference Shares of £1 each and 20,000 6% Preferred Ordinary Shares of £1 each and 10,000 Deferred Shares of 10s. each.

The following Trial Balance was extracted from the books of the Company as on 31st December, 19..—

TRIAL BALANCE

	Dr. £	Cr. £
Preference Share Capital: 22,000 Shares fully paid		22,000
Preferred Ordinary Share Capital: 19,000 Shares fully paid		19,000
Deferred Ordinary Share Capital: 10,000 Shares fully paid		5,000
Purchases	46,852	
Factory Wages	3,674	
Rates, Taxes and Insurance (⅞ths Factory)	1,288	
Sales		74,594
Office and Management Salaries	3,650	
Purchases and Sales Returns	362	597
Advertising	3,675	
Dividends	3,240	
Factory Power and Lighting	317	
Reserve Account, 1st January, 19..		5,000
Carriage on Purchases	219	
Carriage on Sales	232	
Goodwill at cost	17,500	
Office Expenses	1,672	
Motor and Delivery Expenses	345	
Income Tax Reserve Account		4,310
Travellers' Salaries and Expenses	2,693	
Manufacturing Expenses	841	
Plant and Machinery at cost less depreciation	4,670	
Furniture and Fittings	840	
Motor Delivery Vans	1,275	
Carried forward	93,345	130,501

	Dr.	*Cr.*
	£	£
Brought forward	93,345	130,501
Stock, 1st January, 19..	9,849	
Profit and Loss Account Balance 1st Jan., 19..		28,31[illegible]
Bills Receivable	694	
Reserve for Bad Debts		50[illegible]
Discount Account (balance)		69[illegible]
Freehold Factory and Offices at cost	25,000	
Sundry Debtors and Creditors	29,692	8,54[illegible]
Cash at Bank and in hand	9,643	
Legal Expenses and Audit Fee	327	
	£168,550	£168,55[illegible]

You are required to prepare a Manufacturing Account and a Profit and Loss Account for the year ended 31st December, 19.., and a Balance Sheet as on that date, taking the following matters into consideration—

(*a*) Goods to the value of £1,250 were distributed as free samples during the year, but no entries in respect of them had been made in the books.

(*b*) The Directors' Report for the previous year contained the following recommendations—

(i) The payment of the full dividends on the Preference and the Preferred, Ordinary Shares and 20% on the Deferred Shares.

(ii) The transfer to Reserve of £5,000.

(iii) The writing down of Goodwill by £7,500.

(iv) The initiation of an Employees' Superannuation Fund (to remain invested in the business) by the transfer to that fund of £10,000.

The recommendations were duly approved and passed, but no entries were made in the books other than the record of the dividends paid and the Income Tax in respect of them.

(*c*) The Income Tax Reserve Account being considered in excess of requirements, it was decided to write back £2,000 standing to the credit of this Account. No entry had been made in respect of this.

(*d*) Depreciation is to be written off as follows—

(i) Plant and Machinery 10%—to be charged to Manufacturing Account.

(ii) Furniture and Fittings 5%—to be charged to Profit and Loss Account.

(iii) Motor Delivery Vans 20%.

(*e*) The Manufacturing Account is to be charged with £500 as representing rent of the space occupied by the Factory.

(*f*) Stock was valued as on 31st December, 19.., at £10,875.

Stage II—Intermediate

Book-keeping

1. In what Ledger or other accounts, and upon which side of such accounts, would you expect to find the following—

(*a*) £500 paid for New Machinery.

(*b*) £170 received from J. Robinson in full settlement of his account of £172 12s. 6d.

(*c*) £600 received from an Insurance Company in settlement of a claim for damages to premises by fire.

(*d*) £75 received for the sale of old Motor Van.

(*e*) £250 paid to J. Fitter in full settlement of an account due to him three months hence of £260 15s.

2. (*a*) Define the term "Trial Balance."

(*b*) If the Debit and Credit sides of a Trial Balance agree in amount is this conclusive evidence that the whole of the Book-keeping has been correctly done? If not, why not?

(*c*) From the following list of balances extracted from the books of M. Brake prepare a Trial Balance as on 31st March, 19..—

Balances—31st March, 19..

	£	s.	d.
Capital, M. Brake	13,000	–	–
Drawings, M. Brake	1,200	–	–
Purchases	11,564	9	2
Sales	23,914	12	1
Stock (1st April, 19..)	7,624	9	–
Sundry Creditors	2,715	11	6
Bills Payable	3,000	–	–
Furniture and Fittings	250	–	–
Carriage on Purchases	115	9	6
General Expenses	1,246	8	7
Wages	6,351	12	–
Salaries	1,286	10	6
Bank Loan (secured by a Mortgage on the Premises)	3,500	–	–
Freehold Premises	6,000	–	–
Sundry Debtors	6,214	2	3
Returns Inwards	321	3	4
Bank Charges and Interest	261	9	6
Postage and Stationery	114	6	9
Carriage on Sales	384	10	6
Discounts Allowed	633	4	5
Discounts Received	16	8	0
Cash at Bank	245	4	4
Cash in hand	23	12	3
Bills Receivable	2,310	–	–

3. A. and B. trading in partnership decide, as on 31st March, 19. to dissolve partnership and to liquidate their business.

Their Balance Sheet as on that date was as follows—

BALANCE SHEET—31ST MARCH, 19.

	£	s.	d.		£	s.	d.
Capital Account: A. .	2,000	–	–	Cash . . .	1,800	–	–
Capital Account: B. .	1,500	–	–	Sundry Debtors .	2,800	–	–
Sundry Creditors .	2,750	–	–	Other Assets .	850	–	–
				Goodwill . .	800	–	–
	£6,250	–	–		£6,250	–	–

Profits and Losses are shared equally.

The Debtors realized £2,700, other Assets £950, and the Goodwill of the business was sold for £400. The expenses of liquidation amounted to £100.

Prepare the necessary accounts to show the result of the realization as it would appear in the books of the firm and the position of the two partners as regards the disposal of the balance of cash remaining after satisfying the firm's liabilities.

4. J. Last, carrying on business under the name of Last & Company as a boot and shoe wholesaler, agrees as on 1st January, 19.., to admit his manager A. Tree as a junior partner on the following terms—

Profits and Losses were to be shared as to three-fourths to Last and one-fourth to Tree.

Tree was to be allowed a partnership salary of £260 per annum.

Last was to be entitled to draw £50 per month on account of profits and Tree £25 per month, in addition to his salary.

No Interest was to be charged on Drawings but Interest was to be allowed on Capital at 5% per annum.

A Goodwill Account was to be opened for £2,000 and a similar amount credited to Last's Capital Account.

Tree being unable to pay in any cash as Capital it was agreed that, should his share of profits permit, the sum of £500 per annum was to be transferred from his Current Account to his Capital Account at the close of each year until such time as his Capital Account amounted to £3,000.

On 31st December, 19.., the following Trial Balance was extracted from the books of the firm—

TRIAL BALANCE—31ST DECEMBER, 19.

	£	£
J. Last—Capital Account		6,000
Current Account balance	100	
Drawings	600	
A. Tree—Drawings Account	300	
Goodwill	2,000	
Partnership Salary	260	
Purchases	35,233	
Carriage Inwards	462	
Advertising	806	
Salaries and Wages	2,725	
Carried forward	42,486	6,000

	£	£
Brought forward	42,486	6,000
Rent, Rates and Insurance	380	
Gas and Electric Light	31	
Delivery Expenses	1,065	
Motor Vans, 1/1/19..	300	
Motor Vans purchased during the year	600	
General Expenses	493	
Bad Debts	14	
Sales		47,323
Stock, 1/1/19..	9,083	
Fixtures and Fittings	250	
Travellers' Salaries and Expenses	1,385	
Sundry Creditors		8,087
Sundry Debtors	7,160	
Cash in hand	50	
Bank Overdraft		1,887
	£63,297	£63,297

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date.

When preparing the accounts the following matters are to be taken into consideration for which no entries have been made in the books—

(*a*) Depreciation to be provided as follows—

Fixtures and Fittings	10% per annum
Motor Vans Old Balance	15% ,,
Motor Vans New	20% ,,

(*b*) Stock on Hand at 31st December, 19.., was agreed at £8,219.

(*c*) A Reserve of 2½% on the Sundry Debtors is to be made to cover Bad and Doubtful Debts.

(*d*) £23 was due to a traveller for commission for the December quarter.

(*e*) £240 was due to the firm from a certain manufacturer as a bonus on the sales of his boots during the year under review.

(*f*) The following amount is to be carried forward—

Insurance £20

(*g*) A Claim of £27 for goods lost in transit has been admitted by the Railway Company but not paid.

Stage II—Intermediate

Book-keeping

1. From the following particulars prepare a Statement showing how the difference between the Cash Book Balance and the Pass Book Balance is reconciled—

	£	s.	d.
Pass Book Balance—30th June, 19..	1,401	12	6
Cash Book Balance—30th June, 19..	557	10	1

Cheques drawn prior to 30th June, 19.., but not presented until after that date—

	£	s.	d.
P.	29	4	1
Q.	801	3	6
R.	5	14	9
S.	132	6	3

Country cheques paid into the Bank on 30th June, 19.., not collected until 2nd July, 19.. . . . . £116 3 11

Bank Charges and Interest to 30th June, 19.., not entered in the Cash Book 8 2 3

2. (*a*) What do you understand by a "Profit and Loss Account?"

(*b*) Explain the difference between a "Profit and Loss Account" and a "Trading Account."

3. Enterprise Limited was registered with a Nominal Capital of £500,000, divided into 250,000 7% Preference Shares of £1 each and 500,000 Ordinary Shares of 10s. each.

The Company was formed to acquire an established business, the purchase price, £300,000, including Goodwill, being payable as follows: £50,000 in Preference Shares, £50,000 in Ordinary Shares (both fully paid), £100,000 in 4½% Debenture Stock, and the balance in cash.

The balance of the Preference Shares were subscribed by the public and fully paid up and 200,000 Ordinary Shares were subscribed by the Directors and fully paid up.

The assets and liabilities taken over (at agreed values) were—

	£		£
Freehold Works	75,000	Plant and Machinery	31,000
Stock	66,000	Sundry Debtors	112,000
Patents and Trade Marks	8,000	Sundry Creditors	12,000

Give the Journal entries necessary to record the above transactions in the books of the Company, and show its initial Balance Sheet.

4. X. and Y. carried on business in partnership under the title of X. & Co. The following Trial Balance was extracted from their books on 30th April, 19..—

	Dr. £	*Cr.* £
X. Capital Account		20,000
Y. Capital Account		10,000
X. Drawings Account	1,250	
Y. Drawings Account	1,250	
Freehold Premises	12,000	
Machinery and Plant	4,820	
Stock 1/5/19..	7,834	
Office Furniture and Fittings	1,200	
Manufacturing Wages	9,675	
Carriage (Factory)	952	
Purchases (Net)	33,437	
General Expenses (Factory ¾, Office ¼)	1,624	
Machinery Repairs	142	
Carried forward	74,184	30,000

	Dr.	Cr.
	£	£
Brought forward	74,184	30,000
Rates (Factory £660, Office £110)	770	
Advertising	10,716	
Bad Debt Reserve 1/5/19..		500
Sundry Debtors	17,860	
Sundry Creditors		10,733
Office Salaries and Expenses	3,862	
Mortgage on Freehold Premises at 6 per annum		5,000
Sales		61,725
Sales Returns	683	
Cash in hand	100	
Bank Overdraft		543
Insurance (Factory £300, Office £26)	326	
	£108,501	£108,501

You are required to prepare Manufacturing and Profit and Loss Accounts for the year ended 30th April, 19.., and a Balance Sheet as on that date. When preparing these accounts the following matters are to be taken into consideration—

(*a*) The Partnership Deed provides that Interest is to be allowed to Partners at 5% per annum on their Capital Accounts, but no interest is to be charged on drawings.

(*b*) Profits and Losses are to be shared as to two-thirds to X., and one-third to Y.

(*c*) Stock on hand on 30th April, 19.., was valued by the partners at £8,931.

(*d*) The Reserve for Bad Debts is to be made up to 5% on the Sundry Debtors.

(*e*) Depreciation is to be provided as follows—

Machinery and Plant . . . 10% per annum.
Fixtures and Fittings . . . 5% per annum.

(*f*) A year's interest due on the mortgage had not been paid and no entry put through the books in connection therewith (ignore Income Tax).

Stage III—Advanced

BOOK-KEEPING

1. The following was the Balance Sheet of Brown & Co. as on 31st October, 19..—

	£	£		£
Capital Accounts:			Fixtures and Fittings	450
Brown	10,000		Stock	17,212
Green	8,000		Debtors	7,337
Grey	5,000		Cash	2,192
		23,000		
Sundry Creditors		4,191		
		£27,191		£27,191

Profits were shared in the proportions Brown 2/5ths, Green 2/5ths, and Grey 1/5th. Brown retired on 31st October, 19.., and in accordance with the partnership agreement the firm's goodwill was valued as on that date, being found to be worth £2,530. Green and Grey each brought in a further £2,000 Capital, and Brown withdrew his share of Capital (including goodwill) except for £5,000 which he left as a loan to the firm.

Draw up a Balance Sheet of the firm to show the position after carrying out the above.

2. Holmes & Sons import a considerable quantity of goods from France, and keep a special Purchases Ledger which records the sterling and currency amounts. The following is a list of their transactions for two months with Loubet et Cie, with the amounts converted into sterling by the firm's book-keeper—

Purchases.

19..		*Fcs.*	£	*s.*	*d.*
May	2	12,800	103	4	6
	15	32,240	260	–	–
	27	19,420	156	12	3
June	3	8,715	70	5	8
	24	11,465	92	9	2

Returns.

19..		*Fcs.*	£	*s.*	*d.*
May	17	2,200	17	15	–

On 10th June, 19.., a draft for the amount due at 31st May was purchased at a cost of £502 18s. and remitted to Loubet et Cie. You are required to enter the above transactions in the ledger of Holmes & Sons, and to bring down the balance at 30th June, 19...

3. The following debits appear in the Profit and Loss Account of a Company—

(*a*) Reserve for Bad and Doubtful Debts.
(*b*) Discount on Debentures.
(*c*) Bank Interest.
(*d*) Loss on sale of investments.
(*e*) Staff Bonus (10% of net profit).

State whether or not each of these items would be allowed as a charge by the Inspector of Taxes when computing the Company's liability. Give your reasons shortly in each case.

4. On 1st January, 19.., the wholesale Distributing Co., Ltd., had an authorized Capital of £250,000 divided into 100,000 6% Preference and 150,000 Ordinary Shares of £1 each, all of which were issued and fully paid. It was resolved to increase the Ordinary Capital by £100,000 for the purpose of acquiring a competing business carried on by Henry Mason & Son. The transfer took place as from 1st March, 19.., on the following terms—

(*a*) The purchase consideration was to be £105,000, and the Company was to take over liabilities of the Vendor amounting to £20,973.

(*b*) The assets acquired were Freehold Premises, £25,000, Furniture and Fittings £8,000, Stock £40,000, and Book Debts £52,973.

(*c*) The purchase consideration was to be satisfied as to £30,000 in cash, and as to the remainder by the issue of 50,000 fully paid Ordinary Shares valued at 30s. each.

(*d*) The Vendor was to have the right, at any time within two years of the completion of the sale, to apply any part of the £30,000 received in cash in purchasing from the Company additional Ordinary Shares at the price of 30s. each. On 30th September, 19.., he purchased 10,000 shares in accordance with this arrangement.

(*e*) The Vendor guaranteed the Book Debts taken over by the Company.

In addition to the balances necessary to record the above particulars, the following were extracted from the books of the Company as on 31st December, 19..—

	£
Cash at Bank and in hand	61,047
Freehold Premises as at 1/1/19..	70,000
Wages	32,424
Profit and Loss Account 1/1/19..—*Cr.* balance	6,547
Goodwill	40,000
Debenture Interest (nine months to 30th September, 19..)	1,875
Motor Lorries as at 1/1/19..	17,200
Sale of Motor Lorry (30th June, 19..)	70
Salaries	15,726
Rates and Water	1,800
Commission	3,316
5% Mortgage Debentures	50,000
Sales	848,900
Packing Materials	1,189
Creditors	66,288
Debtors	152,876
Stock (1st January, 19..)	76,496
General Expenses	3,632
Directors' Fees	3,500
Purchases (net)	688,248
Discounts—*Dr.* balance	8,505
Repairs	2,428
Furniture and Fittings as at 1/1/19..	9,945
Returns Inwards	6,731
Insurance	984
Debenture Redemption Fund	8,890
Debenture Redemption Fund Investments	8,420
Advertising	5,422
Lorry Expenses	7,604
Heating and Lighting	654
Transfer Fees	13
Preference Dividend	6,000
Interim Dividend on Ordinary Shares 5%	10,000
Costs of acquisition of H. Mason & Son	2,874
Bad Debts—Debts taken over from H. Mason & Son	1,252
Others	7,560

You are required to prepare Trading and Profit and Loss Accounts for the year ended 31st December, 19.., and a Balance Sheet as on that date.

When preparing the Accounts the following matters must be taken into consideration—

(*a*) Stocks at 31st December were valued as follows—

Goods	£102,421
Advertising Materials	629

(*b*) Motor Lorries are to be depreciated at the rate of 20% per annum. The lorry sold was included in the preceding Balance Sheet at a valuation of £200.

(*c*) The following amounts had been prepaid in respect of the following year:—

Rates	£327
Insurance	232

(*d*) On 31st December a contract note was received from the company's brokers for the purchase of investments on behalf of the Debenture Redemption Fund, costing £2,140. No entries had been made in the Company's books.

(*e*) £2,000 is to be transferred to the Debenture Redemption Fund.

(*f*) One-half of the costs of the acquisition of the business of H. Mason & Son is to be written off.

(*g*) Write off £945 from Furniture and Fittings.

UNION OF LANCASHIRE AND CHESHIRE INSTITUTES

Second Year

1. What are the differences between a receipts and payments account and an income and expenditure account?

Name some items which might appear in the former but which should be excluded from the latter.

2. On 1st April, 19.., W. Johnson supplied goods valued at £336 15s. to B. & R. Grear. This firm failed in September, 19.., and on 1st November, 19.., the trustee in bankruptcy paid a first and final dividend of 6s. 8d. in the £. What amount would Johnson receive, and what entry or entries would be needed in his books to close Grear's account?

During the following year some previously undisclosed assets came to the trustee and he paid a further dividend of 3s. 4d. in the £. What entry would Johnson make in his books in respect of this?

3. A shipping house had many transactions in connection with which they were paid by means of bills of exchange, although their own payments were invariably by cheque.

What book or books would you suggest they should use to record the bill transactions? Give a ruling and make some specimen entries.

4. What is an account sales?

Prepare an account sales to be sent by consignee in connection with the following transactions—

Bellwood & Co., of London, sent to P. Priestman, at Melbourne,

36 cases of goods. Priestman paid dock charges and warehousing, £14 16s. 6d., and insurance, £4 8s. 8d. He sold half the consignment at £35 per case net on 11th December, 19.., and the balance at £35 per case less a cash discount of 5% on 8th January, 19... Priestman was entitled to a commission of 3% on the proceeds of sales, and he remitted by draft the amount due to Bellwood & Co. with the account sales on 17th January, 19...

5. George Brearley and Peter Lawson were equal partners in a merchants' business, and the following Trial Balance was taken from their books on 31st December, 19... From it and the information given below prepare a Trading and Profit and Loss Account and a Balance Sheet at 31st December, 19...

TRIAL BALANCE AS AT 31ST DECEMBER, 19..

	£	£
Capital—G. Brearley		2,500
Capital—P. Lawson		1,000
Cash	268	
Bank Overdraft		896
Leasehold Property	1,900	
Fixtures and Furniture	750	
Stock, 1st January, 19..	2,963	
Sales		18,679
Purchases	14,328	
Returns Outward		460
General Expenses	1,786	
G. Brearley—Current Account	325	
P. Lawson—Current Account		180
Bad Debts	143	
Discounts	372	
Debtors	4,165	
Creditors		3,309
Fixtures purchased 1st July, 19..	150	
Commission received		126
	£27,150	£27,150

£100 to be written off leasehold property.

Each partner to be credited with interest on his capital at 6%. A debt of £250 included in sundry debtors is estimated to be worth £150.

Rates and insurance (included in general expenses) prepaid £50. Stock, 31st December, 19.., £1,387.

THIRD YEAR

Part I

1. A limited company had the following transactions during the year 19... Give the entries necessary to record the transactions in the books of the company.

(*a*) 100,000 Ordinary Shares of £1 each are issued at a premium

Part II

J. Purwell was in business as a gramophone and wireless dealer, and his financial position at 1st March, 19.., was as under—

Cash in hand, £16 12s. 9d.; owing to bank, £565 6s. 6d.; freehold premises, £1,300; mortgage on premises, £800; stock in trade, £1,930 3s.; creditors: Super Radio Co., Ltd., £386 12s. 6d., Osmul & Co., £124 10s. 3d.; rent owing to landlord to 31st December, 1931, £100; debtor: B. Creskeld, £29 13s. 6d.; bills payable, £300.

As he was short of working capital, he arranged to admit C. Heath as an equal partner, and on 1st March, Heath paid £2,000 into the bank; half of this was to be a premium and the whole amount was to remain in the business.

Open the books of the firm, enter the transactions for March, as given below, in the appropriate books, and post to the necessary Ledger accounts.

As on 31st March, 19.., balance the Cash Book and prepare a Trial Balance. No Profit and Loss Account or Balance Sheet is required.

March 1. Gave a two months' Bill to the Super Radio Co., Ltd., for £386 12s. 6d.
3. Bought from the Super Radio Co., Ltd., wireless goods, £212 10s.
5. Cash Sales for week. £67 10s.
8. Repaid Mortgage with £13 10s. interest to date, by cheque.
,, Paid in cash, Sundry Expenses, £8 4s. 6d.
9. Paid by cheque, Rent to 31st December, 19.., £100.
12. Cash Sales for week, £93 17s. 6d.
14. Received from Mason & Son their account for £287 10s., being amount agreed for alterations and additions to Shop.
15. Purchased from Osmul & Co., Batteries, etc., £59 10s.
17. Paid Osmul & Co. cheque for £121 8s., Discount allowed, £3 2s. 3d.
19. Cash Sales for week, £87 10s.
,, Paid cash to Bank, £150.
21. Bill for £150 due this day paid through Bank.
23. Bought from Box & Co., Ltd., Cardboard Packages, £17 10s. 9d.
24. J. Purwell withdrew cash, £25.
25. Received from B. Creskeld, cash £29 10s., allowed him 3s. 6d. Discount.
26. Cash Sales for week, £114 3s. 6d.
28. Bought at Auction Sale, for cash, Gramophones, £75.
29. Received cheque for £12 10s., being a Dividend on a Debt due from P. Rhodes which had been written off as bad in 19...
30. Bought from Osmul & Co., Wireless Goods, £137 15s. 6d.
31. Paid in cash, Wages for month, £52 10s.

Part III

From the Trial Balance and other information given below you are required to prepare a Trading Account, Profit and Loss Account, and a Balance Sheet as at 31st March, 19...

W. Freeman & Son

Trial Balance as at 31st March, 19..

	£	£
Capital Account, Wm. Freeman		2,000
" " John Freeman		500
Drawings Account, John Freeman	360	
Cash in hand	29	
Bank Account		128
Rent, Rates, and Taxes	286	
Carriage Outward	351	
Creditors		1,637
General Office Expenses	400	
Bad Debts Account	20	
Machinery and Plant	1,200	
Stock at beginning of year	2,310	
Sales		10,936
Purchases	8,412	
Debtors	940	
Repairs to Machinery	86	
Discount	259	146
Bills Receivable	866	
Returns	138	310
	£15,657	£15,657

The following adjustments are to be made—

Depreciate Machinery and Plant at the rate of 5%.

A debt of £170 included in Sundry Debtors is estimated to be worth only 10s. in the £.

Interest to be allowed on capital at 5% per annum.

W. Freeman takes two-fifths and John Freeman three-fifths of the net profit.

Stock on hand at close of year was valued at £1,700.

Third Year

The following balances were taken from the books of the J.B. Distributing Company Limited on 31st December, 19... From these balances and the other information given below, prepare a Trading Account. Profit and Loss Account, Appropriation Account, and a Balance Sheet as on 31st December, 19...

	£
Purchases (net)	23,860
Factory Wages	11,732
Machinery and Plant	16,000
Sales (net)	39,769
Office Salaries	2,340
Reserve Account	1,500
Carriage on Purchases	1,430
Staff Pension Fund	4,300
" " Investments	4,060

Transfer Fees	75
Office Furniture	750
Stock, 1st January, 19..	22,666
Profit and Loss Account, 1st January, 19.., Debit Balance	3,000
Reserve for Doubtful Debts	500
Rent, Rates and Taxes	1,226
Sundry Debtors	23,640
Sundry Creditors	8,950
Bank Overdraft	3,941
Unclaimed Dividends	50
Cash in hand	127
Repairs and Renewals	890
General Office Expenses	2,364

The capital of the company was £100,000, divided into 50,000 Ordinary Shares of £1 each, all of which were issued, and 10s. per share paid up, and 50,000 6% Preference Shares of £1 each, of which 30,000 were issued and fully paid.

Stock on hand, 31st December, 19.., was valued at £31,700.

Depreciate Machinery and Plant at the rate of 5% per annum.

Increase Bad Debt Reserve to £750.

Transfer £500 to Staff Pension Fund.

Included in Wages is £450 paid to own workmen for additions to machinery.

Directors decide to transfer £1,000 from Reserve Account, and to pay the dividend on the Preference Shares for the year under review.

UNION OF LANCASHIRE AND CHESHIRE INSTITUTES

Second Year

1. Define the following, giving examples—
   (*a*) Nominal Accounts.
   (*b*) Real Accounts.
   (*c*) Fixed Wasting Assets.
   (*d*) Floating Assets.
   (*e*) Fictitious Assets.

2. A London trader consigns goods, £500, to South Africa and pays charges and freight, £50. His agent informs him that the goods realized £600, and, after deducting charges and commission, £48, encloses a cheque for the balance. Enter these transactions in the books of the London trader.

3. Where persons are trading in partnership it is customary to credit each partner with interest on capital before the balance of profit is ascertained, and in many instances the balance is not divided equally. State briefly your reasons why interest should be allowed, and why it may be equitable to divide the balance of profit unequally.

4. Why is it considered necessary to make a reserve for discounts and bad and doubtful debts? Assuming debtors to be £5694 15s., the reserve required for discounts 2½ per cent, and the reserve required for

bad and doubtful debts 5 per cent, show how you would state the sundry debtors in the Balance Sheet.

5. Mr. B. Bury was in business selling typewriters and office supplies on the 1st January, 19.., and his financial position on that date was as follows—

	£	£
Machinery	1,400	
Stock	714	
Debtors—		
O. Oldham	60	
C. Clear	94	
Bills Receivable discounted at Bank		120
Office Furniture	26	
Cash at Bank	115	
Petty Cash in Hand	15	
Creditor—		
S. Jones		215
Bills Payable		80

On the same day he entered into partnership with C. Cross, who contributed £1,000 as Capital made up as follows: Stock, £300; Machinery, £40; and the balance in Cash.

Their transactions for the month of January are as follows: You are required to make the opening entries in the books as at 1st January, to enter the January transactions in the appropriate books, to post them to the Ledger, and to take out a Trial Balance as on the 31st January, 19... All cheques are banked the day of receipt.

No Profit and Loss Account or Balance Sheet is required.

19..			£	s.	d.
Jan.	1.	Purchased for cheque typewriter spares	18	9	4
	3.	Bank advise that bill receivable discounted has been paid.			
	4.	Bought goods on credit from M. Moss.	64	6	8
	6.	O. Oldham paid his account by cheque, *less* 5 per cent discount.			
	7.	Sold goods to O. Oldham on credit	86	–	–
	7.	Sold Goods to M. Mack on credit	54	–	–
	7.	Bill payable due to-day paid by bank	40	–	–
	7.	Drew cheque for Wages and Petty Cash	16	4	2
		Petty Cash expenditure was: Stationery for Office, £1 4s.; Postage, 16s.; Oil for Typewriter Repair Work, 15s.; Advertising, £1 5s.; Sundries, 4s. 2d.			
	8.	Cash Sales and Repairs paid into Bank	69	17	4
	10.	Paid S. Jones on account by cheque, £115, and purchased goods on credit, £198.			
	12.	Purchased typewriter for office use by cheque	7	10	–
	14.	Paid personal accounts of B. Bury by cheque	47	9	4
	14.	Received Bill Receivable from C. Clear, £60, and Cheque for £32. Discount allowed, £2.			
	14.	Drew cheque and paid Wages	12	–	–

		£	s.	d.
19..				
Jan. 15.	Endorsed Clear's bill, £60, and gave it to S. Jones			
15.	Cash Sales and Repairs paid into Bank	75	9	6
17.	Received cheque, £84, from O. Oldham in payment of account and sold him goods, £94.			
21.	Drew cheque and paid Wages	12	–	–
21.	M. Mack paid on account	30	–	–
22.	Cash Sales and Repairs paid into Bank	63	6	4
22.	By arrangement retired bill payable, £40, under discount, £4.			
25.	Exchanged 3 typewriters for a job lot of carbon paper and other supplies for the shop. Value £75.			
28.	Drew cheque for Wages and Petty Cash	20	15	4
	Petty Cash expenditure was: Postage, 17s. 6d.; Sundries, 15s.; Repair Material, £1 16s. 4d.; Spares, £1 5s.; Adverts., £1 5s.; Stationery for Shop, £1 15s.; Personal Accounts, B. Bury, £1 1s. 6d.			
29.	Cash Sales and Repairs paid into Bank	58	6	8
29.	Cheques for drawings: B. Bury, £20; C. Cross, £30.			

6. The following Trial Balance has been abstracted from the books of Hunter and Blunt after the Trading Account has been completed and the gross profit ascertained.

TRIAL BALANCE

	£	£
Capital—		
H. Hunter		2,000
B. Blunt		3,000
Loan Account—		
B. Blunt		1,000
Drawings—		
H. Hunter	500	
B. Blunt	300	
Office Furniture	180	
Stock, 31st December	1,875	
Bad Debts Reserve		50
Sundry Creditors		594
Sundry Debtors	1,295	
Cash at Bank	394	
Cash in Hand	20	
Trading Account Balance		1,300
Rates and Gas owing		20
Bills Receivable in Hand	700	
Bills Receivable discounted, £416.		
Machinery	3,000	
Machinery depreciation		300
	£8,264	£8,264

You are required to complete the Profit and Loss Account for the year to 31st December, 19.., and prepare a Balance Sheet as on that date.

E. Blunt paid in the additional capital of £1,000 on the 1st July and made the loan on the 1st October.

Allow interest on capital at 5 per cent per annum on the loan at 6 per cent per annum, credit H. Hunter with a salary of £300, and then divide the profit three-fifths to Hunter and two-fifths to Blunt.